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Politics this week

Feb 7th 2008
From The Economist print edition

Voters in more than 20 American states went to the polls on **Super Tuesday** to choose their presidential favourites. On the **Democratic** side, Hillary Clinton chalked up solid wins in big states such as California, Massachusetts, New Jersey and New York. Barack Obama, her rival, won more states overall and did well in the South. With most of the Democratic delegates shared out proportionally, the party's nominating process seemed to be far from over.

On the **Republican** side, John McCain delivered a knock-out blow to Mitt Romney, winning all the big states in play on the day, as well as Missouri, considered a bellwether. Mr Romney considered his options for a day and dropped out. The surprise was Mike Huckabee, who mopped up wins in five southern states. See article

Tornadoes cut a swathe through Alabama, Arkansas, Kentucky, Mississippi and Tennessee on polling day, killing at least 55 people.

The Baxter Bulletin

The White House unveiled a $3.1 trillion **budget plan** and forecast that the federal deficit would increase sharply to $410 billion for the current fiscal year (ending on September 30th). The government expects to receive less revenue from taxes. See article

Mending fences

The Egyptian authorities resealed their country's border with the **Gaza Strip**, but failed to persuade Hamas to sign up to a previous agreement whereby Egypt, Israel and the Palestinian Authority, which is run by Fatah, a rival Palestinian group, would oversee the border and crossing point.

Hamas claimed responsibility for its first suicide-bombing since 2004, after two **Palestinians** attacked the **Israeli** town of Dimona, killing an elderly Israeli shopper.

Two female suicide-bombers killed 99 **Iraqis** in separate attacks in Baghdad markets. An Iraqi police chief said the perpetrators were mentally retarded and that their explosives had been set off by remote control. The number of civilians killed in such attacks in January was half the rate of a year ago.

Ethnic cleansing continued in **Kenya** after a disputed presidential election in December. At least 1,000 people have been killed. Negotiations between representatives of the incumbent, Mwai Kibaki, and his aggrieved challenger, Raila Odinga, continued under the aegis of Kofi Annan, a former UN secretary-general. See article

Forces loyal to **Chad's** president, Idriss Déby, repulsed an attack by rebels on the country's capital, Ndjamena. French troops heading a European Union peacekeeping mission were poised to bolster the president if required. See article

Simba Makoni, a former finance minister of **Zimbabwe** who had remained a member of President Robert Mugabe's ruling ZANU-PF until his resignation from the party this week, said he would run for president against the incumbent in an election scheduled for March 29th. See article

Admiral Mike McConnell, America's director of national intelligence, revived doubts about a much-publicised intelligence estimate on **Iran** issued in December. He stressed that Iran had apparently halted only its effort to design nuclear warheads, which he said were “probably the least significant part of the programme”. He told the Senate Intelligence Committee that Iran still posed a potential nuclear threat as it was continuing to enrich uranium.

Not forgotten

AP

More than a million **Colombians** took part in marches to repudiate the FARC guerrillas and their holding of more than 700 hostages, some for up to a decade. Demonstrations were also held in dozens of cities across the world. See article

Canada's parliament approved a plan to spend C$1 billion ($1 billion) to help single-industry towns where factories, and especially lumber plants, have shut down because of the slowing economy in the United States.

Officials in **Bolivia** said 48 people had died and some 40,000 families had been made homeless in flooding in the north of the country.

Disunited front

Condoleezza Rice, America's secretary of state, visited London and then travelled to **Afghanistan** with David Miliband, Britain's foreign secretary, amid concerns that disagreement among NATO members is jeopardising the war against the Taliban. See article

EPA

The weather eased somewhat in **China** after the worst snowstorms in 50 years in the south and centre of the country. As the lunar new year holiday began, millions struggled to make their annual trip home. Power supplies were severely disrupted by fuel shortages and damage to power lines. See article

In **Cambodia**, the most senior surviving member of the Khmer Rouge regime, Nuon Chea, appeared in court for the first time and asked the special genocide tribunal for an adjournment.

Thailand's new prime minister, Samak Sundaravej, announced his new cabinet. Its leading lights are all allies of Thaksin Shinawatra, the prime minister ousted in a coup in 2006.

In **Bangladesh** the High Court ruled that the corruption trial of Sheikh Hasina Wajed, a former prime minister, was unlawful and could not proceed. The government appealed against the ruling. See article

The national pastime

Italy's president dissolved parliament, paving the way for an election in mid-April, after an attempt by the speaker of the Senate to form an interim government had failed. The centre-right, led by Silvio Berlusconi, is tipped to regain the power it lost in 2006. See article

The moderate pro-Western candidate, Boris Tadic, was re-elected as **Serbia's** president. But an agreement on trade and visas offered by the European Union was shelved after the Serbian prime minister, Vojislav Kostunica, denounced it on the ground that the EU is preparing to recognise an independent Kosovo. See article

Turkey's parliament gave initial approval to a constitutional amendment to allow girls to wear the Islamic-style headscarf at state universities.

In a ceremony attended by President Viktor Yushchenko, **Ukraine** signed the terms for joining the World Trade Organisation. Getting into the WTO is seen as confirmation of Ukraine's new, pro-Western stance. Russia is still some distance from joining.

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Business this week

Feb 7th 2008
From The Economist print edition

Microsoft launched an unsolicited $44.6 billion bid for **Yahoo!** in hopes of gaining a larger share of the online advertising market, which it said is “increasingly dominated by one player”. **Google** responded that a combined Microsoft and Yahoo! would lead to less competition on the internet and indicated it would challenge the acquisition vigorously. Yahoo! started to assess its options. See article

BHP Billiton raised its bid for **Rio Tinto** by 13%, valuing its offer at $147 billion. Rio Tinto promptly rejected the deal as too low. Earlier, Aluminum Corp of China and America's Alcoa disclosed that they had built up a 9% joint stake in Rio Tinto, with finance from the deep pockets of China Development Bank, complicating matters for BHP Billiton. If the Anglo-Australian mining companies combine it will be the second-biggest takeover ever (after Vodafone's acquisition of Mannesmann). See article

Oil's not well

BP reported a big drop in its headline profit for 2007, which it attributed partly to refining costs, and announced 5,000 job cuts. Despite the poor performance, BP increased its dividend for the fourth quarter handsomely, on the basis of a “robust view of the future”.

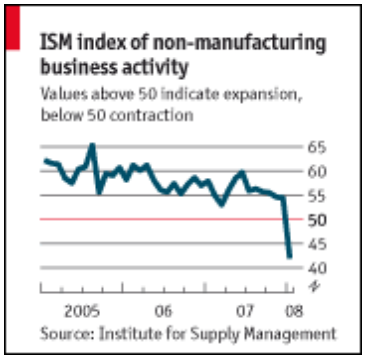
BP's figures were in stark contrast to those of other oil companies, which saw their profits soar. **Exxon Mobil** said its net income for 2007 was $40.6 billion, a record for an American company; **Royal Dutch Shell** made a profit of $27.6 billion, the biggest ever for a European company.

The misery continued for America's housebuilders. **Toll Brothers**, the largest builder of luxury homes, released preliminary quarterly earnings in which it said it expected revenue from its core business to fall by 22%, compared with a year earlier.

The **Bank of England** cut its key interest rate from 5.5% to 5.25%. The decision was to support a slowing economy, although Britain's central bank remains concerned about inflationary pressures. See article

Already there?

More indicators pointed to a **possible recession in America**, including the net loss of 17,000 jobs in January, the first monthly drop in employment since 2003. A measure of activity in the service sector from the Institute for Supply Management fell in January by the most since the survey began some ten years ago. Stockmarkets tumbled on the news. See article



Ryanair forecast that high fuel prices and fewer passengers from European markets would affect its profit for the next fiscal year, which it said would be halved. However, Michael O'Leary, the boisterous boss of Europe's biggest low-cost airline, said he welcomed “a good, deep, bloody recession” to force his competitors to reduce fares.

The after-effects of the trading scandal at **Société Générale** rumbled on. Jérôme Kerviel, the trader placed under investigation for the French bank's *euro*4.9 billion ($7.2 billion) loss, said that he would refuse to be made a “scapegoat” in the affair. And a report prepared by France's finance ministry criticised SocGen's procedures for monitoring its trades, adding to the pressure on Daniel Bouton, the bank's chairman, to step down. Meanwhile, it emerged that America's Securities and Exchange Commission was looking at a sale of shares by a member of SocGen's board made shortly before the scandal came to light. See article

A surprise last-minute decision by Olivant, an investment company, not to bid for **Northern Rock** left two

offers on the table: one from Richard Branson's Virgin Group, the other a proposed takeover by the bank's management. Olivant blamed the conditions imposed by the British government on a sale of the stricken mortgage lender.

Egg, a British online bank, said it would cancel the credit cards of 161,000 customers it deemed too risky. The cards will stop working in March. The news provoked angry reactions from some credit-card holders who claimed their credit records were spotless. Egg was acquired by Citigroup last year, before the deterioration in money markets.

Lost in the post

Amazon decided to pull out of the DVD rental business in Europe by reaching an agreement to transfer its subscribers to **Lovefilm**, a rival, in return for a stake in the company. Amazon doesn't have a rental DVD mail service in the United States, but sells or rents films for download through its Unbox platform. It wants to extend this facility to European markets.

The Hollywood screenwriters' strike continued to take its toll on the film industry's award season when *Vanity Fair* cancelled its **Oscars** bash, the most glamorous of the many parties due to be held after the awards ceremony. The society magazine scrubbed its event in support of the writers.

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KAL's cartoon

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Illustration by Kevin Kallaugher

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America's election

Half-way there

Feb 7th 2008
From The Economist print edition

The Republicans, at least, seem to have found a decent candidate

Illustration by Kevin Kallaugher

WINSTON CHURCHILL, that famous half-American, once said that his mother's countrymen could always be counted on to do the right thing, after exhausting the available alternatives. His words would apply well to the Republican Party just now. Having lengthily lionised “America's mayor”, Rudy Giuliani, looked longingly at Reagan-lite Fred Thompson, flirted with millionaire Mitt Romney and sung along with preacherman Mike Huckabee, the party's voters have sensibly plumped for John McCain, the only Republican whom pollsters give a chance of keeping the White House out of Democratic hands (see article). It is possible—just—to imagine Mr McCain failing to carry the nomination after Super Tuesday, which saw him win three times as many delegates as his nearest rival, Mr Romney, who suspended his campaign. But that would now require spectacular intervention by the Almighty on behalf of the admittedly pious Mr Huckabee.

Given George Bush's failings, the Republicans face an uphill challenge, but they have given themselves a chance. Mr McCain is a man of courage. He showed it in Vietnam, while Mr Bush and Bill Clinton found themselves other occupations; as a prisoner-of-war, he refused to be released without his comrades even though he had already been tortured for a year, so earning four more years of agony. He has been brave politically, too. It takes an exceptional individual to court the hatred of his own party rather than compromise on issues he believes in, such as the need for immigration reform, the wrongness of torture under any circumstances or the need to tackle global warming. Should Mr McCain become president, the world will see an American with different views from those it has sadly learned to expect from Republicans recently.

Those atypical positions, and his willingness to team up with Democrats in the Senate, may have earned Mr McCain the support of many of the independent voters who will be crucial to Republican chances in the general election. But it would be wrong to think the senator from Arizona is simply pandering to them. On a host of other issues, he has risked alienating the centre. He is a passionate believer in free trade (which endears him to this newspaper, at least), and he was a supporter of the “surge” in Iraq when all Democrats, most independents and a fair few Republicans thought the best thing to do was for America to leave. Some of these beliefs, alas, will surely hurt him, but it is much to his credit that when advisers urged him to moderate them he angrily refused.

A few chinks in the armour

Mr McCain is certainly the right man for the Republicans, but we are not yet ready to endorse him for the presidency. His age is one drawback: at 72, he will, if elected, be the oldest president ever to take office (though Ronald Reagan was older when he was re-elected in 1984). His health has not been perfect—though his 96-year-old mother looks reassuringly sprightly—and his choice of a running-mate is therefore a subject of more than the usual concern. One danger is that he might feel constrained to select Mr Huckabee, who won five southern states this week and appeals to the evangelical Christians who mistrust Mr McCain. Likeable though he is, Mr Huckabee is tainted by an anti-business strain of populism and a literalist faith that sometimes blinds him to basic science. The possibility of a Huckabee presidency would give many independent voters (and this newspaper) pause.

Mr McCain's other problem is his temperament. He has not been mellowed by having had to run a state—a shortcoming he shares with his Democratic rivals, but still a disadvantage. The flip-side of his courage is a short temper. There have been too many blow-ups with fellow senators. At a time when America needs to rebuild its relationship with the rest of the world, a prickly patriot who supported the Iraq war (though he was the first to call for Donald Rumsfeld's head after things started to go wrong) and who has been known to sing “Bomb, bomb, bomb; bomb, bomb Iran” to the tune of “Barbara Ann” could be improved on from a diplomatic point of view.

Don't give up on the Democrats

So a Democrat may yet impress us more, but first they must put their own house in order. Luckily for Mr McCain, that will be a while coming—and in the meantime he can start raising money for the general-election campaign. Most analysts argue that Barack Obama would have a better chance against Mr McCain than Hillary Clinton would. The young black senator is better at appealing to the centrist voters who like Mr McCain; and the prospect of another Clinton co-presidency would do much to compel Republican right-wingers to get behind a man they think is not a true conservative.

That calculation ought to help Mr Obama in the weeks to come after a Super Tuesday that was, on the Democratic side, a dead heat. Another 22 states, including big ones like Texas and Ohio, have still to vote in primaries, and half the delegates have yet to be chosen. Mr Obama will also gain an edge from the return to a battle that is fought state by state, since this plays to his superior abilities at firing up big crowds. But the formidable Clinton machine grinds on, and the fact that she won in most of the big states that were up for grabs on Super Tuesday has buoyed her team no end. Mrs Clinton's solid support among Hispanics will help a lot in Texas, though at the cost of keeping race as a live, and nasty, issue on the hustings. On the other hand, this week Mr Obama won in more states and may have secured one or two more delegates as well, so he can make a strong claim to have superior momentum.

The fight will be long and mucky, but the Democrats may yet emerge sharpened by the contest. Both Mrs Clinton and Mr Obama have the necessary attributes to take on Mr McCain: they are two formidable campaigners who have offered detailed and generally intelligent policy proposals and have been forced to work exceptionally hard for their votes.

So Mr McCain is still no more than half-way to the White House. But the fact that the Republicans seem to have learnt from their mistakes enough to line up behind a credible candidate augurs well for their country—and for the world.

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Snowbound China

Megaphone apology

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From The Economist print edition

It is good to hear a government apologise. But China's has much to be sorry about

AFP

THE last time anyone can remember a Chinese leader venturing, megaphone in hand, into a disgruntled crowd to offer an apology was in May 1989 when Zhao Ziyang visited Tiananmen Square to say sorry to students protesting there. The apology neither saved Mr Zhao's career nor prevented the army's advance on the square a few days later. But it seems to have impressed one man, at Mr Zhao's left shoulder in this famous photograph of the incident (see above). This year Wen Jiabao, now China's prime minister, has been mimicking his former boss. He dropped into railway stations where freezing crowds had waited for days to get home for the annual Chinese new year holiday. He used his megaphone to apologise for the disruption caused by the worst winter weather southern and central China have endured in at least five decades.

In China as anywhere else, when a politician apologises, he is usually saying “it is not my fault.” Everyone loves to blame the government and some Chinese bloggers have been muttering about Hurricane Katrina. But even in China many people will have attributed this disaster to an “act of God” rather than a foul-up by the Politburo (see article).

All the same, in a one-party dictatorship, where power has traditionally meant never having to say you're sorry, Mr Wen's humility is a welcome nod towards accountability. It forms part of a broader awareness on the part of China's leaders of the discontented grumbling of those who feel left behind in the breakneck dash for growth. In speech after speech, Mr Wen and Hu Jintao, the party's boss and China's president, have promised to do more to bridge the widening gap between China's mostly urban rich and its mostly rural poor. That gap is inhabited by people like those suffering in the cramped, icy railway stations. Many have escaped rural penury in China's interior to work as migrants in the booming factories and building sites of the coastal belt. The annual lunar new year holiday represents their one chance to have a few days off, go home and see loved ones. No wonder Mr Wen was worried about their mood.

Out of control

Despite their professions of concern, however, Mr Wen and Mr Hu have done little in concrete policy terms to make them count. And there are some ways in which policy failures have indeed exacerbated the weather-induced agony. The first is the inadequacy of disaster-response mechanisms, and the poor co-ordination between the various government departments involved. Second is the refusal to tackle a basic structural problem: that China is a country with hundreds of millions of migrant workers, most of whom are separated from their families, who all take their holidays at exactly the same time. A reform to holiday entitlements is belatedly under way. Residency rules that force families apart also need reviewing.

Thirdly, at least one aspect of the latest crisis was both foreseeable and in part a direct result of government policy: the electricity shortages, which afflicted tens of millions and worsened the transport bottlenecks. A flawed reform had freed fuel prices but left power-producers unable to pass on the rising cost of coal to consumers, because electricity prices are fixed. Many producers responded by letting their stocks fall to dangerously low levels, in the hope prices would fall when the weather warms up in the spring.

Little scares China's leaders as much as high rates of price inflation. And with food production and distribution both affected by the bad weather, they are likely to be tempted by further administrative price controls. But the lesson of the recent crisis is not that they are needed; it is that they do not work.

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Technology and development

The limits of leapfrogging

Feb 7th 2008
From The Economist print edition

The spread of new technologies often depends on the availability of older ones

Alamy

MOBILE phones are frequently held up as a good example of technology's ability to transform the fortunes of people in the developing world. In places with bad roads, few trains and parlous land lines, mobile phones substitute for travel, allow price data to be distributed more quickly and easily, enable traders to reach wider markets and generally make it easier to do business. The mobile phone is also a wonderful example of a “leapfrog” technology: it has enabled developing countries to skip the fixed-line technology of the 20th century and move straight to the mobile technology of the 21st. Surely other technologies can do the same?

Alas, the mobile phone turns out to be rather unusual. Its very nature makes it an especially good leapfrogger: it works using radio, so there is no need to rely on physical infrastructure such as roads and phone wires; base-stations can be powered using their own generators in places where there is no electrical grid; and you do not have to be literate to use a phone, which is handy if your country's education system is in a mess. There are some other examples of leapfrog technologies that can promote development—moving straight to local, small-scale electricity generation based on solar panels or biomass, for example, rather than building a centralised power-transmission grid—but there may not be very many.

Indeed, as a recent report from the World Bank points out (see article), it is the presence of a solid foundation of intermediate technology that determines whether the latest technologies become widely diffused. It is all too easy to forget that in the developed world, the 21st century's gizmos are underpinned by infrastructure that often dates back to the 20th or even the 19th. Computers and broadband links are not much use without a reliable electrical supply, for example, and the latest medical gear is not terribly helpful in a country that lacks basic sanitation and health-care facilities. A project to provide every hospital in Ethiopia with an internet connection was abandoned a couple of years ago when it became apparent that the lack of internet access was the least of the hospitals' worries. And despite the clever technical design of the $100 laptop, which is intended to bring computing within the reach of the world's poorest children, sceptics wonder whether the money might be better spent on schoolrooms, teacher training and books.

The World Bank's researchers looked at 28 examples of new technologies that achieved a market penetration of at least 5% in the developed world, and found that 23 of them went on to manage a penetration of over 50%. Once early adopters latch onto something new and useful, in other words, the rest of the population can quickly follow. The researchers then considered 67 new technologies that had achieved a 5% penetration in the developing world, and found that only six of them went on to reach 50%. That suggests that although new technologies are often adopted by a small minority of people in poor countries, they then fail to achieve widespread diffusion, so their benefits do not become more

generally available.

Lavatories before laptops

The World Bank concludes that a country's capacity to absorb and benefit from new technology depends on the availability of more basic forms of infrastructure. This has clear implications for development policy. Building a fibre-optic backbone or putting plasma screens into schools may be much more glamorous than building electrical grids, sewerage systems, water pipelines, roads, railways and schools. It would be great if you could always jump straight to the high-tech solution, as you can with mobile phones. But with technology, as with education, health care and economic development, such short-cuts are rare. Most of the time, to go high-tech, you need to have gone medium-tech first.

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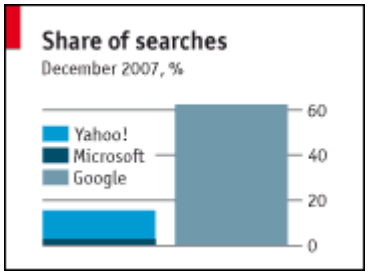
Microsoft, Yahoo! and Google

Giants in combat

Feb 7th 2008
From The Economist print edition

Microsoft should be allowed to buy Yahoo!—and Google should be free to fight back



THIS was the week that seemed to confirm the new balance of power in the technology industry. Computing is moving online, away from the desktop—and away from Microsoft, the desktop-software leviathan, to Google, master of online search. Microsoft's determination not to lose the struggle became clear when it bid $44.6 billion in cash and shares for Yahoo!, an ailing internet giant (see article). If the deal goes ahead, it will reshape the technology industry and clear the way for a straight fight between Microsoft and Google for dominance in the internet era. But whether Microsoft's bid succeeds or fails, it changes how all three firms are perceived.

Yahoo!'s status as the also-ran that seemed poised to inherit the internet, but failed to keep up with the changing technological times, is cemented. Microsoft, which has never made an acquisition on anything like this scale, has in effect conceded that it cannot compete with Google on its own; its bid highlights its own weakness almost as much as Yahoo!'s. Meanwhile, Google's objections to the proposed deal on antitrust grounds—even though the combination of Microsoft and Yahoo! would still trail far behind it in both internet search and advertising—show that the firm has failed to grasp that it, not Microsoft, is now regarded as the industry's Goliath.

Microsoft is the larger company by market capitalisation, of course, being worth some $270 billion, compared with Google's $160 billion or so. But the software market in which Microsoft mainly operates offers far weaker growth prospects than the intertwined search-and-advertising market dominated by Google. The search giant's pre-eminence in these fields is not related to a proprietary technological lock-in (internet users can easily switch between search engines); its market share falls far short of the 90% that Microsoft boasts in desktop operating-systems and office-productivity software; and it is not a convicted monopolist. So to call Google the new Microsoft is, in many ways, unfair. But it is undeniably the company that other technology firms and media giants are now most scared of—including Microsoft itself. Google's growing market share in search, and hence its clout in online advertising, make it look unstoppable.

Searching for scale

What particularly worries Microsoft is the prospect that software will increasingly be delivered as an internet-based service, supported by advertising. Google already offers a few such services, and is venturing onto Microsoft's patch. Microsoft's counter-attack has failed to make headway. Despite repeated relaunches, its search engine has a worldwide market share of 2.9%, against Google's 62.4%. Microsoft's share of online advertising is equally puny. Hence its bid for Yahoo!, the number two in search and advertising.

The two talked about a merger or partnership in 2006 and 2007, but at the time Yahoo! still hoped that Panama, a new system for placing advertisements next to the results of internet searches, would enable it to catch Google. Panama has failed to live up to expectations, however, and Yahoo!'s latest results caused its share price to fall to a four-year low on January 30th. Microsoft duly pounced. Unless a rival bid emerges, which is unlikely, or Yahoo! tries to save itself from the beast of Redmond by outsourcing its search-and-advertising operations to Google, Microsoft seems likely to get its prize.

Just how anti-competitive would a Microsoft-Yahoo! merger be? It is true that the combined firm would dominate the markets for instant messaging and web-based e-mail, but neither is lucrative. In the markets that really matter—search and advertising—the Microsoft-Yahoo! combination would still trail far behind Google, which is hoping to extend its reach in advertising even further by buying DoubleClick. The

danger remains that Microsoft will somehow exploit its desktop monopoly to push Google aside. But how, exactly? Microsoft is being closely monitored by regulators, and if there were any way for it to use its desktop monopoly against Google it would surely have done so by now. Buying Yahoo! does not help it in that respect—and the deal may well backfire anyway. Microsoft has never done a merger of this size, and the two companies have very different cultures: there could be an exodus of engineers to other firms, including Google.

From a regulator's point of view, there are two decisions to make. The immediate one—whether to let a Microsoft-Yahoo! tie-up go ahead—is simple enough: creating a more convincing counterweight to Google can only be good for competition. (By contrast, a tie-up between Google and Yahoo! would constitute a worrying concentration of power.) If Microsoft tries any of its old tricks, it should be punished. As for the longer-term question—what to do about Google?—the answer is essentially the same. Like Microsoft, Google has enormous power in its market, so regulatory vigilance is necessary. But so far nobody, despite much grumbling, has shown that Google is abusing that power. So leave Google alone too, and prepare for an epic battle between the two tech titans.

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Kenya's tragedy

Stop this descent into hell

Feb 7th 2008
From The Economist print edition

President Mwai Kibaki must be persuaded to compromise or he may lose a country

AFP

SIX weeks after Mwai Kibaki stole an election, the bloodshed and ethnic cleansing in swathes of Kenya are getting frighteningly worse. Parts of the country are in danger of sealing themselves off (see article). Areas where a medley of ethnic groups once lived together are being ripped apart in tribal mayhem. The economy is rapidly deteriorating. The export of tea, coffee and flowers, big foreign-currency earners, has slowed drastically. Tourism is plummeting. Whole towns have been paralysed, as ethnic cleansing has spread, with Mr Kibaki's fellow Kikuyus, who run thousands of businesses outside their own heartlands, being chased out or even killed. Hundreds of thousands of people have been displaced.

Mr Kibaki has been hoping that time is on his side, that the violence and anger will burn itself out, that the opposition led by Raila Odinga will gradually be forced to accept a fait accompli, that the African Union and leaders of countries close to Kenya will rally to the incumbent in their usual clubbable manner, and that Kenya's biggest trading partners and aid givers will shrink from penalising him because general sanctions would hurt Kenya's many poor. But this happy (for him) outcome seems a distant prospect. If Mr Kibaki is to save his country, let alone his presidency, he must give ground. Otherwise Kenya will move beyond saving. This would be terrible not just for Kenya; it threatens the well-being of the entire region, for which Kenya and its capital, Nairobi, have long served as a hub of political moderation and economic bustle. Landlocked Uganda and Rwanda are being hurt. Goods are piling up in the region's main port, Mombasa.

The international bodies and countries that might have been expected to squeeze Mr Kibaki into seeing sense have been incoherent. The Americans first endorsed Mr Kibaki's flawed victory, as he has been an ally in their war on terror, then withheld approval, then sent out confusing signals after their State Department's head of African affairs said, rightly, that ethnic cleansing was happening. The British and their European partners have been more united in disapproval but have yet to present a real plan. Next door to Kenya, Uganda's president, Yoweri Museveni, himself the beneficiary of a constitutional fiddle to give himself a third term, has been alone in granting full support. The Chinese, whom Mr Kibaki is looking to for economic and moral support, have unhelpfully sneered that multi-party democracy is ill-suited to Africa.

This leaves a former UN secretary-general, Kofi Annan, as the sole plausible mediator. He has made a little progress. At least Messrs Kibaki and Odinga now have two teams of negotiators grappling with each other under Mr Annan's gaze. But Mr Kibaki still seems loth to share power, let alone contemplate rerunning the election under international supervision.

A rerun would have been the juster solution. But with Kenya burning, the world may have now to settle for second-best, a government of national unity. Mr Kibaki should also promise to reform the electoral commission, perhaps bringing in members from Commonwealth countries in Africa and Asia. Ideally, he

should also agree in principle to long-mooted constitutional changes that would provide for a prime minister and a more devolved administration, thus softening the winner-takes-all attitude that is partly responsible for the current intransigence on both sides.

Bringing the entire building down on himself

There is no easily enforceable way for outsiders to impose such sensible conditions on Mr Kibaki. Certainly, the United States and the European Union, if not the African Union, should impose targeted sanctions—with asset freezes and travel bans—against a clutch of the most venal ministers, some of whom Mr Kibaki has even promoted since his fraudulent re-election; they should be named, too. Kenya should be suspended from the Commonwealth and aid reconsidered.

But the most powerful pressure against Mr Kibaki is the sight of his country's economy threatening to implode. Many of his keenest Kikuyu supporters must realise that his refusal to budge is leading all Kenyans, whether supporters of himself or Mr Odinga, into a bloody and bankrupting dead end from which it may soon become impossible to retreat.

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On corporate social responsibility, Keynesian economics, Taiwan, business, wine

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From The Economist print edition

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FAX: 020 7839 2968 E-MAIL: letters@economist.com

Company goods

SIR – Your special report on corporate social responsibility (January 19th) did not fully appreciate the impact that public disclosure and social vetting can have on a company's practices. The United Nations Global Compact is far from "toothless", as you put it, and has implemented a range of measures to promote accountability among companies that participate in the programme. These businesses are required to give annual updates on the progress they have made in aligning themselves with the initiative's ten principles; those that repeatedly fail to communicate are identified as "inactive" on the Global Compact website and eventually delisted. This unflattering fate has befallen 900 of the 4,500 participating companies.

The exposure has not gone unnoticed. A group of signatories to the UN Principles for Responsible Investment sent a letter recently to nearly 80 businesses identified as laggards urging them to become more transparent about their performance on a range of environmental and social indicators. This market response shows that corporate leaders place a premium on openness, be it for the sake of minimising financial risks or simply for a better night's sleep. Or both.

Georg Kell
Executive director
United Nations Global Compact
New York

SIR – Adam Smith proposed that if profit is attained in a competitive market, working with clear rules and transparent information, it becomes "socially legitimate" because it has created value. This view has been expanded on by Hayek and others. However, some businesses try to convince us that they have become "socially responsible" through their deceiving propaganda in order to make us forget that they do not fulfil the basic conditions (competition and honesty of information) for the social legitimacy of their profits. They also lobby against regulations that try to remedy this. It would be good if some companies were reminded that in addition to their CSR, a respect for markets and consumers would provide social legitimacy.

Eric De Keuleneer
Professor
Solvay Business School
Brussels

SIR – Contrary to your assertion, there are in fact many NGOs or quasi-NGOs in China. Most, however, are registered as private companies because of red tape. Many are affiliated with the government, but a growing number are independent, local and increasingly vocal. They provide an informal monitoring role for government departments that are stretched to enforce regulations. And they sometimes provide an informal whistle-blowing channel where a blatant abuse of workers' rights or an excessive discharge of pollutants is taking place.

The net effect is that the voice of the people is starting to be heard, such as in recent months when mass objections, using text messages, internet surveys and public hearings forced the authorities to postpone the building of a paraxylene plant in Xiamen.

Paul Wenman
Managing director

CSR China
Oxford

SIR – Your ambivalence about the effects of CSR omits two compelling reasons for scepticism. The first objection is philosophical. In the 200 years since Kant, a key principle of ethics has been that motivation must be free of self-interest, and intrinsically good, if it is to be recommended as a guide for behaviour. The second objection is pragmatic: CSR may not be in the self-interest of companies themselves. Avoiding unintended, and undesirable, consequences is at the root of both objections.

The philosopher's purity of intent aims to spur behaviour that in all places and circumstances is desirable. The pragmatist objects that these goals, once achieved, will produce negligible competitive advantage for the company, whether measured by purely financial or other softer yardsticks.

Hamilton Moses
North Garden, Virginia

SIR – Doing good only matters if you do right. Enron was the very model of CSR; unfortunately, it was screwing its employees and investors at the same time. Too often the motive for CSR derives from public relations, not morality.

Arnold Brown
Chairman
Weiner, Edrich, Brown
New York

A general theory

SIR – You suggest that the manipulation of credit (monetary policy) may have to be accompanied by a fiscal stimulus to offset the problems besetting the American economy (Economics focus, January 26th). Practically everybody, it seems, including Ben Bernanke, agrees with you. And yet nobody, including you, is willing to call it what it is: Keynesian economics. When Richard Nixon proposed a fiscal stimulus in the early 1970s he was candid enough to say, much to the horror of Milton Friedman, that “we are all Keynesians now”. Can't you be as honest as Nixon?

Robert Carlton
Upland, California

Legal standards

SIR – Much emphasis is put on “Confucian traditions” in Taiwan, but they are not the reason why we do not have a jury system (“Crime and punishment”, January 19th). Taiwan, like Japan, has a legal system transplanted from the countries of continental Europe, most of which have no jury system.

Moreover, although there is a stark contrast between Confucian philosophy and Western legal conventions, in Taiwan, as elsewhere, an individual's freedom is protected by the law and an enforceable constitution, not tradition or custom.

Townshine Wu
Taipei

Business expressions

SIR – Abraham Lincoln is reputed to have once turned down a candidate for a cabinet position on the basis that after 40 every man is responsible for his own face. Research on how we evaluate the faces of male bosses seems to validate his point (“Face value”, January 26th).

However, Lincoln did not mention women. Given the rush in many countries to find more suitable females for seats on boards of directors, is there not an urgent case for research into the “power” and “leadership” conveyed in the faces of female chief executives? Women take a much more active attitude to facial responsibility than the clumsier sex. Women who wish to get on the board with a view to ejecting the boss and running the business themselves need to be taught about how to avoid letting their faces give the game away.

David Heigham
Madrid

Nothing to quaff at

SIR – Many thanks for reporting the results of an experiment which found that a $10 bottle of wine was considered only half as good as a bottle priced at $90 (“Hitting the spot”, January 19th). Nine times the price for only double the pleasure? I'll never pay more than $20 for a bottle of wine again.

Julian Reid
Toronto

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After Super Tuesday

A fighter in search of an opponent

Feb 7th 2008 | WASHINGTON, DC
From The Economist print edition

A win for John McCain on the Republican side but confusion for the Democrats

Getty Images

TUESDAY, February 5th, was as exciting as it gets in American politics, bar presidential election day itself. The country not only held the biggest primary in its history. It also witnessed a pivotal moment in the most dramatic presidential race in a generation. Twenty-four states from Massachusetts to Alaska held primaries and caucuses, including such mega-states as California and New York. By the end of the day, almost 3,000 delegates had been allocated under what are often arcane rules.

The races had everything that one could want from politics. A former first lady trying to make it back to the White House as the first female president. A charismatic black man trying to break the ultimate colour bar. A war hero who had seen his campaign on life-support six months ago and who is loathed by his party's right wing. A businessman who spent some $35m of his own fortune—$110,000 for each of the delegates he secured—to prove the principle that you cannot, in fact, buy an American election.

Throw in several more ingredients—tight races, confused polls (some differing by as much as 20 points), worries about the war in Iraq and the teetering economy plus a palpable desire to make a break with the catastrophic Bush years—and you can see why Super Tuesday was a national obsession, watched in bars, restaurants and at house parties from coast to coast.

The Republican primary produced a clear front-runner in John McCain. Mr McCain not only won the most delegates and the most important states. He also saw the non-McCain vote fragment between Mike Huckabee (who did surprisingly well) and Mitt Romney (who didn't).

The result was much murkier on the Democratic side. Hillary Clinton and Barack Obama both emerged from Tuesday with plenty to brag about. Mr Obama fought a woman who had once been regarded as the unbeatable favourite to a draw. Mrs Clinton, by being deemed to have survived, may have stalled Mr Obama's recent momentum.

The confused result is partly because the two sides are so equally matched (“we won our states and they won theirs” was one Obama spokesman's verdict). But it was also because the Democrats have adopted a primary system that might have been designed to make a tight race a lengthy agony. The Republicans allocate most of their delegates on a winner-take-all basis (for instance, Mr McCain won all of the New York delegates). The Democrats allocate their delegates proportionally, generally cutting up the pie according to the share of votes that the candidates win in each congressional district. Their race will now go on for weeks, and quite conceivably until the Democratic convention in Denver in the last week of August.

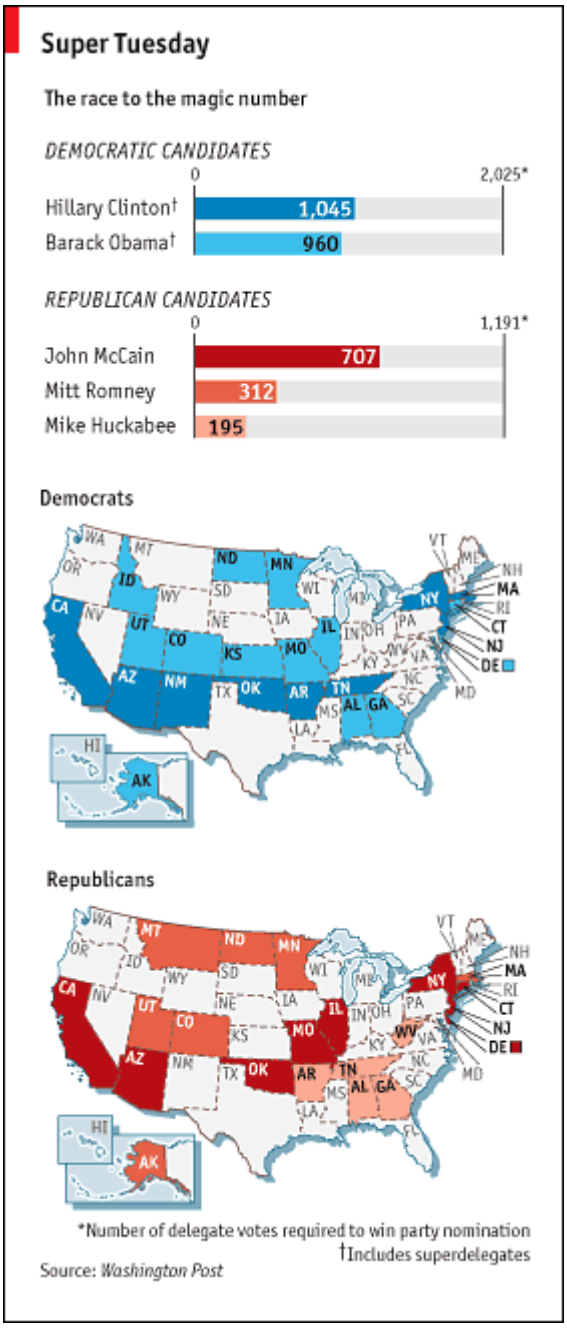
The prospect of a protracted Democratic civil war provides the Republicans with an important opportunity. By all rights this should be the Democrats' year. Democrats cast more than 60% of the

votes on Tuesday, with twice as many Democrats as Republicans turning out in some states. But the Republicans have done well in choosing the one candidate who has a broad electoral appeal. The Clinton-Obama stalemate provides them with an opportunity to reunite their party and to start raising money for the main battle while the Democrats are still tearing themselves apart.

No longer the underdog

Four days before Super Tuesday, Mr McCain addressed a crowd in Chicago. He was unpolished but pugnacious. He spoke of terrorists who put explosive vests on mentally disabled women. He spoke of Democratic leaders who want to surrender in Iraq. He promised to reach out to Democratic, libertarian, vegetarian and even Trotskyite voters. He promised to beat either Mrs Clinton or Mr Obama like a drum. He barely mentioned his Republican rivals.

Mr McCain did not quite clinch the Republican nomination on February 5th, but he pulled far ahead of Mr Romney and Mr Huckabee. He won the biggest states (New York and California) convincingly. He did well across the map, sweeping the north-east (bar Mr Romney's home state of Massachusetts) and proving his appeal from leafy Connecticut to dusty Oklahoma. He added around 600 delegates to his tally, against Mr Romney's 200 and Mr Huckabee's 155. He acknowledged, with feigned reluctance, that he is no longer the underdog, a position that has played well to his gritty strengths.



Mr Huckabee, who had failed to win anything since Iowa, crowed that his five victories on February 5th showed that he is the only man who can beat Mr McCain. As usual, he found Biblical analogies. “Sometimes one small smooth stone is even more effective than a whole lot of armour,” he said (translation: “like David, I can topple giants.”). And “we've also seen that the widow's mite has more effectiveness than all the gold in the world,” (translation: “Mr Romney is rich but God prefers me.”).

Mr Huckabee's joyous fans, of course, needed no translator. Jim Bob Duggar, a volunteer, likened campaigning for the former governor of Arkansas to going on a religious mission. He brought all 17 of his home-schooled children to the candidate's election-night party. “We have a bus,” he explained. Yet although Mr Huckabee surpassed expectations, he failed to break out of his niche in the South and among his fellow evangelicals.

As for Mr Romney, he did well out West, but failed to win any big or southern states. This augured terribly for his campaign. His loss in Georgia spoke volumes. On February 4th, he held a rally in Atlanta. None of his male supporters had long hair; none of the women wore nose studs. Caitlin Carroll, a typical Romneyite, said she admired the way the zillionaire former governor approaches problems: he surrounds himself with clever people and asks questions. He gets things done, she said, and his Mormon faith is none of her business.

Sadly for Mr Romney, where Ms Carroll sees pragmatism, others see inconstancy. And not all voters are so relaxed about his religion. The flip-side of Mr Romney's 90% of the vote in heavily-Mormon Utah is that he flounders in the Bible belt. He won wealthy suburbs in Georgia, but Mr Huckabee crushed him in devout rural counties and he came third in a state he thought he could win. Mr Romney ran the numbers for a day and pulled out of the race on February 17th.

Mr McCain is marching relentlessly towards the nomination, albeit with a rival clinging to his coat. He is winning partly because voters admire him, but also because he has the best chance of upsetting the Democrats in November. He may lack Mr Obama's eloquence or Mrs Clinton's grasp of policy detail. But while Mr Obama was in short trousers and Hillary Rodham was waffling to her fellow students about “searching for more immediate, ecstatic and penetrating modes of living”, Mr McCain was having his teeth and bones broken by North Vietnamese interrogators.

Mr McCain also has a reputation for straight talk (mostly, if not entirely, deserved) and for defying his party in ways that impress centrist voters. Of all the Republicans, he takes the toughest line on curbing global warming, which surely helped him in eco-minded California, where he won 42% of the vote to Mr Romney's 32% and Mr Huckabee's 12%. He has long fought waste in Washington, DC and unlike Mrs Clinton he does not shower pork on his home state. He welcomes immigrants, which pleases Hispanics, who shunned xenophobic Republicans in 2006 but helped George Bush win in 2000. He also advocated the “surge” of American troops in Iraq before any other candidate, and that policy appears to be working.

But Mr McCain has serious handicaps, too. One is his temper. “It is startling to contemplate how violent John McCain was well into his 20s,” notes Matt Welch, a critical biographer. Drunk on shore leave in Cuba, he charged into a brawl between Marines and sailors. He admits to having “loved” such encounters.

Mr McCain no longer brawls, but he still cusses like a sailor, even at fellow senators. He is quick to accuse adversaries of bad faith or even corruption. And he does not seem to care whom he insults. People who insist that Vietnam still holds American prisoners-of-war, for example, he calls “dime-store Rambos”.

Most Americans will forgive Mr McCain his wild youth, especially since he freely supplies so many details about strippers, affairs and knocking over power lines while larking about in his plane. Many will turn a deaf ear to his cursing too. It was not diplomatic of him to shout “Fuck you, you goddamned slant-eyed cocksuckers” at the North Vietnamese guards dragging him off to be tortured, but voters will probably cut him some slack, given the circumstances. Plus, and infinitely more important, he has since then pushed hard for reconciliation with Vietnam.

Nonetheless, some voters will find the prospect of President McCain faintly alarming. Mr Welch says he offers “a more militaristic foreign policy than any US president in a century”. That is an exaggeration. But Mr McCain was unwise to suggest that America could remain in Iraq for a century. He meant only that America might keep bases there, as it has in Japan and Germany. But the Democrats are already using his words against him.

Another problem for Mr McCain is that he appals big chunks of the Republican base. His campaign-

finance reform was aimed at curbing the influence of money in politics. But it failed to do so, and parts of it have been ruled unconstitutional. Many conservatives see campaign-finance reform as a tool for politicians to restrict speech about themselves, and most right-wing talk-radio hosts, who are touchy about free speech, hate it.

He is distrusted by several other types of conservative too. Supply-siders deplore his initial opposition to the Bush tax cuts (though he now says he wants to keep them). Those who fear that America is being flooded with illegal immigrants decry his (failed) attempt to make those illegals legal. Those who either doubt that mankind is cooking the planet or are unwilling to pay much to stop it are repelled by his support for cap-and-trade: Mr Romney says it would add a whole 50 cents to the price of a gallon of petrol.

Mr McCain calls himself a social conservative, but he does not seem terribly enthusiastic about it. He rarely mentions gay marriage. Although he now says he favours overturning *Roe v Wade*, the Supreme Court ruling that barred states from banning abortion, he once said the opposite. And some Republicans worry that he would nominate insufficiently conservative judges, though he did help get Mr Bush's two Supreme Court picks, both of whom are popular with conservatives, confirmed in the Senate.

NBC

Coulter, McCain-hater

Many influential conservatives are rallying to stop Mr McCain. Talk-radio reviles him. James Dobson, the founder of Focus on the Family, a big family-values group, says he will abstain if Mr McCain is the nominee. Ann Coulter, the author of such nuanced books as “If Democrats Had Any Brains, They'd Be Republicans”, says she would even prefer Mrs Clinton in the White House, because “with Hillary, we'll get the same ruinous liberal policies” but Republicans will not be blamed for them. Pragmatic Republicans will doubtless ignore Ms Coulter, but not all Republicans are pragmatic. Mr McCain has won one battle but has a long march ahead.

Fraternal enemies

The Democratic contest had none of the Republican one's clarity, and the pundits are still probing the entrails for guidance. Mrs Clinton may have blunted the Obama insurgency that had been building since the Illinois senator won South Carolina by 28 points and Edward Kennedy anointed him as the new JFK. But she failed to restore her earlier position as a front-runner.

She did win the biggest prize of the night: California. She held onto her strongholds in the north-east. She also proved that she can compete nationally by winning several “red” states such as Oklahoma and Tennessee, which voted for Mr Bush in 2000 and 2004. Her success in Massachusetts was particularly sweet. Mr Obama won the support of the state's two US senators, Mr Kennedy and John Kerry, as well as the governor, Deval Patrick. But Mrs Clinton trounced Mr Obama by 15 points (56% to 41%)—a victory not only for her campaign but for the Clinton name over the Kennedy name.

AP

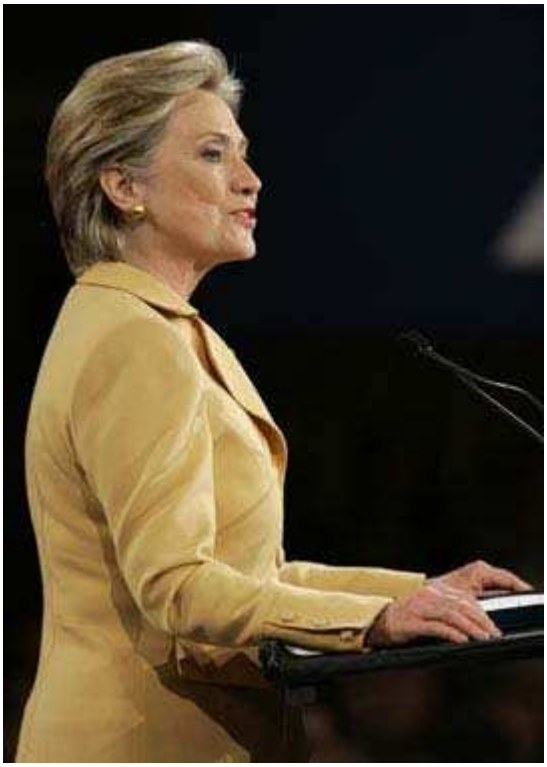
This solid performance came after a dismal period for her campaign. Mr Obama raised $32m in January compared with her $13.5m. (Mrs Clinton has lent her own campaign $5m, a sure sign of distress.) A clutch of national polls showed her double-digit lead collapsing. A Zogby poll on the eve of the election put him 13 points up in California. The Clintonistas went into Super Tuesday with the air of people expecting defeat.

Mrs Clinton tried to set up a series of “face to face” debates with Mr Obama—the classic ploy of a losing candidate. Her spokespeople were reduced to pointing out that she is ahead among “super delegates” (party functionaries who wield *ex*

officio votes) and demanding that the party recognise the results of the Florida and Michigan primaries (which the Democratic National Committee has ruled illegal). The fact that they included Michigan was particularly telling, given that hers was the only name on the ballot.

So Mrs Clinton had a good night; but Mr Obama hardly had a bad one. He seems to have won about the same number of pledged delegates as Mrs Clinton. He won in 13 states to Mrs Clinton's nine. He advanced into her backyard by winning Connecticut (which abuts New York). He held his own state, Illinois, by a wider margin than she held hers, New York. He narrowly won the bellwether state of Missouri. He can boast even more than Mrs Clinton can of being a national candidate, winning such diverse states as Kansas, Georgia and Alaska.

This performance is particularly remarkable considering where Mr Obama has come from. Mr Obama is a freshman senator who could not even get a floor pass to the Democratic convention in 2000. Mrs Clinton led Mr Obama by two to one in the polls last October. Even in the wake of her humiliation in Iowa in January, Terry McAuliffe, Mrs Clinton's campaign manager, boasted that “this thing will be over by February 5th”.



Hillary survives...

The deadlock between the two candidates can be seen at every level. Mrs Clinton is entrenched in the Democratic heartlands of California and the north-east. Mr Obama is strong in the Midwest (he won Minnesota and Kansas easily) and in a number of southern and mountain states.

Race, sex, age and dirt

Mrs Clinton won handily among Latinos and white women. She beat Mr Obama by two to one among Californian Latinos. She won by about 20 points among women across the country (and women make up almost 60% of the Democratic electorate). The Obama campaign mounted an endorsement-fest in California on Sunday featuring Oprah Winfrey, Caroline Kennedy and Maria Shriver, the state's first lady, who strode onto the stage wearing riding clothes and announced that “if Barack Obama was a state, he'd be California.” But this seems to have done nothing to shift the female vote in California or elsewhere.

Mr Obama won handily among blacks and white men. Early exit polls suggest that he attracted the support of three-quarters to nine-tenths of black voters everywhere except New York state. He won by particularly large margins in two states with big black populations, Georgia and Alabama. But he also did well among white men, squashing Bill Clinton's assertion that he is a latter-day Jesse Jackson: he won 40% of white men in Georgia and 50% in California. He also won easily among young people and better educated voters (“Latte liberals” in the dismissive phrase of Mrs Clinton's operatives, most of whom seem to have Starbucks cups firmly in hand as they say it). Mr Obama won 65% of voters aged 18-29 in Missouri, for example.

AFP

The striking exception to Mr Obama's youth appeal was California, despite an energetic ground operation. CNN exit polls suggest that Mrs Clinton beat him in the 18-24 group by four points. But the racial divide seems to have trumped the age divide: Mr Obama won 62% of whites aged 18-29 but Mrs Clinton won 67% of Latinos in the same age group.

The deadlock is deeper than geography or demography: it is about different forms of leadership. Mr Obama is the most inspiring American politician for a generation. Mrs Clinton is an inspiration-free zone—her speech on Tuesday was particularly excruciating—who nevertheless exudes an air of serious-minded competence. Mr Obama's supporters want a president who can inspire Americans to be their better selves. Mrs Clinton's supporters want a leader who can negotiate health-

care reforms and mortgage bail-outs. The Obamaites regard Mrs Clinton as a divisive bore. The Clintonites dismiss Mr Obama as a talented wind-bag.

All this points to a drawn-out and acrimonious battle as the two sides desperately try to amass delegates in the remaining 22 states, plus Washington, DC and three overseas dependencies. As the battle reverts to something more like state-by-state politics and less like the TV-based battle of Super Tuesday, Mr Obama will have a chance to engage in the inspirational rallies that are his forte.

Mrs Clinton is gearing up to use the next few weeks to undermine Mr Obama's policy credentials. Her campaign remains as keen on “one-on-one debates” as it was in the dark days before Super Tuesday. The theory is that though she can't beat him for inspiration she can grind him down in face-to-face combat, and there is no doubt that she is the better debater. She is particularly keen to attack him on health care. Mr Obama argues that her idea of a health-care mandate is like forcing the homeless to buy a house. Mrs Clinton argues that his scheme leaves the uninsured vulnerable without any control on costs.

...but Barack is closing in

Mr Obama, of course, will use every chance he gets to bring up the subject of Iraq. Try as she may, Mrs Clinton can provide no good excuse for her vote, in 2002, to give Mr Bush the authority to wage the war. In many Democratic eyes, she is a warmonger at worst, and naive at best—neither quality being desirable in a chief executive.

And the race could get dirty. Clinton operatives happily note that Mr Obama faces a sticky moment on March 3rd when the trial for fraud of Antoin Rezko opens. Mr Rezko is a Chicago property developer from whom Mr Obama bought a property and from whom he has received large donations. The Clintons are hardly without their dodgy connections, of course. But they contend that, until now, Mr Obama has been largely unscrutinised, while they have survived the microscope. A long, nasty battle, one that might not end until Pennsylvania, or even Denver, is surely a prospect to gladden every Republican heart.

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The road to the Democratic nomination

The great delegate hunt begins

Feb 7th 2008
From The Economist print edition

The candidates now face a marathon

TO CLINCH the Democratic nomination, Hillary Clinton or Barack Obama need to rack up 2,025 delegates to the national party convention, which will take place in Denver in the last week of August. So far, they are nearly level-pegging—Mrs Clinton is on 1,045 to Mr Obama's 960. With 4,049 delegates in all, there is a very long way to go.

The candidates have no time to rest. In the week after Super Tuesday, when almost 1,700 delegates were chosen, around 500 delegates are up for grabs in seven state contests, not to mention the Virgin Islands, which get nine votes in Denver. Louisiana and Washington state come on February 9th, and are sure to boost Mr Obama. He is also likely to triumph on February 12th, when contiguous Virginia, Maryland and Washington, DC will vote in the "Potomac primary". This is fertile Obama ground, with a high proportion of blacks and well-educated and well-heeled whites. At this point he could pull significantly ahead of his rival.

After that the race slackens a bit, until March 4th, another Tuesday, which sees four primaries, including Texas and Ohio, in both of which Mrs Clinton hopes to do well thanks to Latinos in the former and blue-collar workers in the latter. That could put her back in the lead. The contest, some fear, might not be settled until Pennsylvania votes on April 22nd. Perhaps it will all come down to Puerto Rico, on June 7th.

Or even the convention itself. For one big imponderable overhangs the race. Superdelegates are an oddity unique to the Democratic Party which allots Democratic congressmen, senators, ex-presidents and other high-ranking party panjandrums distinctly undemocratic seats at the convention. There are just under 800 of these, and unlike normal delegates (who are supposed to respect the will of their humble voters), they can vote for whoever they like. About 340 have already pledged themselves to either Mrs Clinton or to Mr Obama (more to the former, including her husband). But these pledges are not binding.

The field of battle

Remaining Democratic Party delegates at stake

Date of primary	State	Delegates*
Feb 9th	Louisiana	67
Feb 9th	Nebraska	31
Feb 9th	Virgin Islands (US)	9
Feb 9th	Washington	97
Feb 10th	Maine	34
Feb 12th	District of Columbia	38
Feb 12th	Maryland	99
Feb 12th	Virginia	101
Feb 19th	Hawaii	29
Feb 19th	Wisconsin	92
Mar 4th	Ohio	161
Mar 4th	Rhode Island	32
Mar 4th	Texas	228
Mar 4th	Vermont	23
Mar 8th	Wyoming	18
Mar 11th	Mississippi	40
Apr 22nd	Pennsylvania	188
May 3rd	Guam	9
May 6th	Indiana	84
May 6th	North Carolina	134
May 13th	West Virginia	39
May 20th	Kentucky	60
May 20th	Oregon	65
Jun 3rd	Montana	24
Jun 3rd	South Dakota	23
Jun 7th	Puerto Rico	63

Source: *New York Times* *Includes superdelegates

Might these superdelegates alter the outcome? Possible, if unlikely. If the superdelegates were to force the selection of the candidate who won fewer of the ordinary delegates, it would be quite a propaganda gift to the Republicans. But if they conclude that Mrs Clinton, though ahead, cannot win against John McCain, they might just do it.

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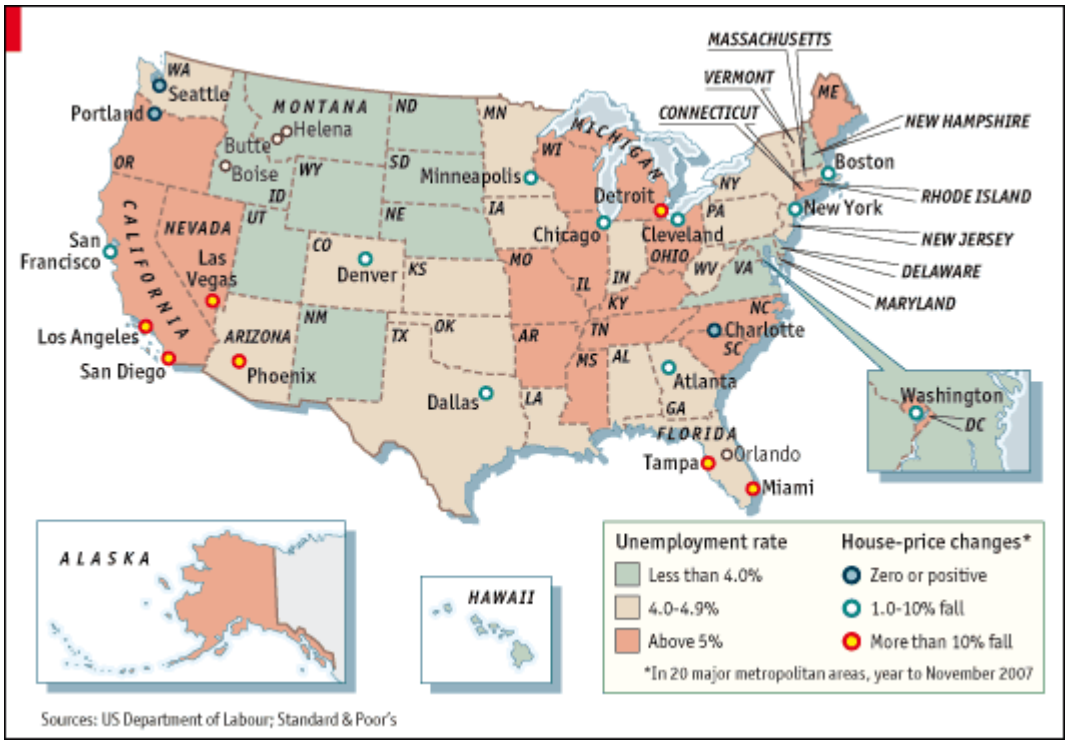
The economy

The geography of recession

Feb 7th 2008 | CHICAGO, HELENA, LOS ANGELES AND WASHINGTON, DC
From The Economist print edition

The latest national statistics are gloomy. Yet America's economic downturn will be felt unevenly



YOU won't hear the R-word much in the modest governor's mansion in Helena, Montana. The occupant, Brian Schweitzer, insists that Montana's economy is in better shape than it has ever been. It has had one of the fastest rates of job growth in the country. The state is prospering on the back of booms in mining and farming, as well as steady growth in tourism. Paul Polzin of the University of Montana forecasts that the state's economy will grow by 4.1% this year, the fifth consecutive year of growth above 4%. “We've been searching for realistic doomsday scenarios,” he says, “and we just can't find any.”

Go to Michigan, by contrast, and it is hard to find anything but gloom. The collapse of America's car industry, coupled with a nasty subprime mortgage bust, has left the state reeling. It has the highest unemployment rate in the country (7.6%) and the third-highest foreclosure rate, and was the only state to lose a large number of jobs in 2007. In the run-up to the state's Republican primary (which he won) Mitt Romney traversed Michigan, promising to save voters from a “one-state recession”.

Montana and Michigan mark the divergence that lies behind America's aggregate economic figures. National statistics suggest that the country may have already tipped into a formal recession. Output rose by only 0.6% at an annual rate in the last three months of 2007, a figure that could easily be revised down to a fall. Residential construction is plunging, house prices are dropping, consumer spending is slowing and the economy shed 17,000 jobs in January, the first such decline since 2003. A monthly gauge of services activity, published on February 5th, has fallen dramatically and now suggests recessionary conditions. The big question—particularly for those on the presidential campaign trail—is where will the pain be felt most acutely, and how far it will spread.

So far, much of the misery has been concentrated in one sector—housing—and in two distinct sets of states: the industrial Midwest and those states that saw the biggest housing bubble, particularly California, Nevada, Arizona and Florida. These two groups are disproportionately important politically.

They include many states that voted early in the primary races. Several of them (such as Michigan and Florida) are traditionally swing states in the general election.

The situation is still grimmest in Michigan, Ohio and other erstwhile manufacturing strongholds, where the subprime bust came on top of the secular loss of factory jobs. But the most dramatic weakening has been in bubble states. Economies that were buoyed by booming construction and soaring house prices are now being dragged down.

California's mighty economy is visibly wobbling. In some cities, house prices are falling at double-digit rates and the unemployment rate has jumped from 4.8% to 6.1% in the past year, an increase twice as steep as the national trend. In Los Angeles, the weak dollar and slower consumer spending have sharply cut import-traffic through the port. This downturn is not as gut-wrenching as those in the early 1990s or 2001, when core industries such as defence and technology suffered badly. But it is steep enough to have thrown the state's budget into disarray and derailed Governor Arnold Schwarzenegger's ambitious plans for health-care reform.

In Florida, Nevada and Arizona the story is similar: plunging house prices, rising foreclosures and disproportionate increases in unemployment. Not all is gloomy: in these states, as in the rest of America, strong global growth and the weak dollar have buoyed export industries and boosted tourism. (Orlando International Airport, the gateway to Disney World, saw a record number of passengers last year.) But these positives have failed to counter the drag from housing and weaker consumer spending. Mark Zandi, chief economist at Moody's Economy.com, reckons that all four bubble states, along with Michigan, are already in recession. Together, he points out, they make up 25% of America's GDP.

Joy on the plains and mountains

Move inland from the coasts and away from the industrial Midwest, however, and the picture, for now, looks less grim. A belt running from Texas north-west across the Great Plains and the Rocky Mountains has been doing particularly well, thanks to soaring exports and high commodity prices. Ethanol subsidies and “agflation” have brought a bonanza to the farm states. Agricultural exports are up almost 20% compared with 2006, while farm incomes are growing smartly. Extractive industries are booming. Miners find it worthwhile to dig for copper in Butte, Montana, even though the operators say it is the worst-grade ore in the world. These states now have some of the lowest unemployment rates in the country. With far less of a housing boom, they have also avoided the worst of the subprime bust.

For politicians from Butte to Topeka, the question now is whether this good fortune will continue. Regional disparities, both in good times and bad, are no surprise in a vast continental economy. During the 1991 recession California and New England suffered disproportionately, thanks to banking crises and defence cutbacks. The 2001 downturn hit states with high-tech hubs hardest at first, while its hangover lasted longest in the industrial Midwest. This time a lot depends on the rest of the world. If emerging economies remain resistant to an American recession and commodity prices stay strong, America's exporting regions will benefit.

That fillip aside, several factors suggest that even America's strongest states face tougher times ahead. The housing market is already weakening well beyond the bubble states. According to the S&P/Case-Shiller index, house prices fell in each of America's 20 big metropolitan areas in November. And, thanks in large part to the credit crunch, economic weakness is spreading well beyond housing. The Federal Reserve's quarterly survey of loan officers, released on February 4th, showed banks demanding tighter lending conditions from consumers and firms alike. And if, as futures markets suggest, house prices have further to fall, that credit crunch will only get worse.

A downturn centred on housing will have pernicious effects, even on the regions it hits least. That is because it constrains one of the biggest safety valves in America's economy: people's ability to move. Previous downturns spawned sizeable migrations from recessionary states to booming ones. In the early 1990s, for instance, people flocked from New England to southern states. This time, that mobility is hampered by people's inability to sell their homes. Unemployment may go on rising in California, even though Montana cannot get the workers it needs.

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Rescuing Kalamazoo

A promising future

Feb 7th 2008 | KALAMAZOO
From The Economist print edition

Will an imaginative new approach to economic development work?

KALAMAZOO, a medium-sized post-industrial city in Michigan, shares the problems of countless such others across America. Its population is shrinking and its poverty rate hovers around 30%. But in November 2005 it received good news: in an effort to revitalise the city, anonymous donors would pay the college tuition fees of every graduate from Kalamazoo's public schools.

The so-called “Kalamazoo Promise” made national headlines, a change for a city used to insisting that its name isn't a joke. Some 80 towns and districts have contacted Kalamazoo to learn about the promise—and a few have even copied it.

AP

Hurrying for free tuition

The programme's central premise is that investing in human capital helps to ensure a town's economic future. The offer of free education, Kalamazoo enthusiasts hope, will retain middle-class residents and attract new ones, tighten the housing market and help the city to lure businesses that are keen to take advantage of a new skilled workforce. This attention to the labour supply, says Tim Bartik, an economist at Kalamazoo's Upjohn Institute, is a markedly different approach from the more usual one of tax incentives.

Michelle Miller-Adams, also at Upjohn, is tracking the programme and will publish a book about it this year. She notes that many of the early results are intangible: for example, a new optimism bubbling up in churches and volunteer groups. Easier to measure is student enrolment, up by 11% after decades of decline. The district has hired 176 new teachers and is building two new schools, the first for 35 years.

But, as Ms Miller-Adams notes, offering children free tuition does not ensure that they go to college or thrive once they are there. In a city where railway tracks really do divide the poor from the middle class, student achievement varies widely. The school district has long struggled to close the gap, but “the promise upped the ante”, says Michael Rice, the new superintendent. He is pursuing a host of reforms, and various local groups are trying to support students outside the classroom.

Yet the goal of creating jobs remains distant. The programme may indeed attract new companies one day. But at present the weak job market may deter some families from making the move to Kalamazoo. The region's energetic economic-development leader, Ron Kitchens, has a daunting mountain to climb.

This summer Kalamazoo will host a meeting to discuss its plan with other cities. A common question concerns the money. In El Dorado, Arkansas, a few oil companies provided it. Hammond, Indiana, is using casino revenues. But finding the cash may anyhow turn out to be relatively simple; the harder part is how to make it produce real change.

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The budget

For the bin

Feb 7th 2008 | WASHINGTON, DC
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But before that, George Bush's fiscal plan will set off an epic fight

APART from its record-breaking size—over $3 trillion, for the first time ever—the most memorable novelty of George Bush's budget proposal was the method he used to submit it to Congress. On February 4th Mr Bush held up a tablet PC and showed off his 2009 e-budget. “It saves paper, it saves trees, it saves money. I think it's the first budget submitted electronically,” he noted. All the easier for the Democrats to drag it to the recycling bin.

Since the plump document aims to keep Mr Bush's policies in place long past his departure from the Oval Office, it seems tailor-made to antagonise the Democratic Congress. The president's request for defence is up 8%, or $36 billion, from last year. He is insistent, in the face of strenuous Democratic opposition, that his 2001 and 2003 tax cuts should be made permanent, which would cost nearly a trillion dollars over the next five years.

AP

One click and it's gone

To cut spending, Mr Bush slashes a range of government-run domestic programmes, including a scheme that trains paediatric specialists. His plan, which features a short-term stimulus package and generous assumptions about the economy's strength, envisions a deficit of $407 billion (2.7% of GDP) in fiscal 2009. By 2012 the budget is meant to be in surplus.

That is unlikely. Mr Bush sets aside $70 billion to finance the war on terror next year, but the cost in past years has been more than double that. The document overstates likely tax revenue by assuming that Congress will not extend relief from the Alternative Minimum Tax, even though it is sure to do so. Given these two factors, the Centre on Budget and Policy Priorities, a Washington think-tank, calculates that under the plan the deficit will be $118 billion in 2012.

Some of the programmes Mr Bush wants to cut, including certain farm subsidies, deserve cutting. More important, his blueprint is a step towards reforming America's ballooning entitlement schemes. Spending on the federal health programmes, Medicare and Medicaid, has increased some 2.5% faster than GDP per person over the past 40 years. If current policies were to persist, these health outlays would go from 4.6% of GDP to 12% in 2050 and 19% in 2082—about the same proportion as total federal spending is now.

Mr Bush's solution—slashing payments to health-care providers—is insufficient and unsustainable, and might even force some patients into more expensive government programmes. But at least he attempts to address the government's long-term fiscal insolvency, which is rather more than the Democrats are likely to do this year.

Regardless of its merits, Mr Bush's plan may well lead to “world war three”, as one pundit put it: a budget fight made all the more bitter by the election that is coming. In last year's budget row, Mr Bush and his allies all but refused to compromise with the leadership in Congress. This year the Democrats look just as wary of giving the president anything he wants. But in this particular war Congress has time on its side. It can always wait until Mr Bush has retired to pass a budget whose priorities are more to its liking.

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Crime

On foot, bike and Segway

Feb 7th 2008 | PHILADELPHIA
From The Economist print edition

A new crime-fighting plan for the city of brotherly love

AILEEN DAILEY, like many of the 1.4m residents of Philadelphia, is no stranger to crime. Her husband was carjacked and her friend was recently held at gunpoint during a robbery. “Crime is so bad now,” she says, “I can't imagine it getting any worse.”

Michael Nutter, Philadelphia's newly elected mayor, and Charles Ramsey, his police commissioner, intend to make sure it doesn't. The two recently unveiled an ambitious 33-page crime-fighting plan which, they hope, will reduce murders in the city by 25% and violent crimes generally by 20% by the end of this year.

AP

Under 200 would still be too many

They hope to achieve this by putting 200 more police officers on the streets—on foot, bike and Segway—by May 1st. The nine most violent districts in the city are particular targets. The police department will implement new tough tactics, such as a controversial “stop and frisk” programme, in the hope of confiscating 5% more illegal weapons. The network of surveillance cameras will be expanded from 26 to 250 by December 31st.

Philadelphia, a city whose name means brotherly love, has one of the country's highest murder rates, and one that (save for a slight dip last year) has been steadily increasing. In 2002 there were 288 killings; in 2007 there were 392. Most of these were committed with handguns. Mr Nutter promised in his inaugural address last month to cut murders by 30-50% within five years, apparently drawing gasps of disbelief from his listeners. His first official act as mayor was to declare a crime emergency in the city.

Mr Ramsey, previously the top cop in Washington, DC, says the new tactics are not a departure: “This isn't Batman and Robin suddenly coming out of a cave somewhere to solve all our problems.” He is also working to restore the morale and the image of the 6,700-strong police department. Citizen complaints have increased since the beginning of the year, and the number of police shootings has jumped. Between 2005 and 2007 the city police shot and killed 44 people (though in 2007 the police had guns pointed at them 56 times). Mr Ramsey has asked the Police Executive Research Forum, an independent police group, to review procedures and training in the use of deadly force.

The mayor has not yet said how much the plan will cost, but his budget will be released next week. Ed Rendell, Pennsylvania's governor, has promised to help foot the bill. The state will part-finance the hiring of 100 new police officers to be put on street patrol. Philadelphia will receive $20m annually over the next three years.

Alex Piquero of the John Jay College of Criminal Justice thinks the plan is a good idea, but its success “depends on what the officer is doing on the street”. Community policing and good relations with civilians are essential. Mr Nutter believes his ambitious goals are attainable. He points to New York, where violent crimes have dropped 75% over the past decade. For a city of Philadelphia's size, he reckons, homicides “should be well under 200”.

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Architecture

You're history

Feb 7th 2008 | TUCSON, ARIZONA
From The Economist print edition

Post-war suburban houses are found to be worth preserving

THE neighbourhood around Hoffman Park, five miles (8km) east of downtown Tucson, resembles a thousand others in the West. One-storey houses erected in the late 1940s and early 1950s sit behind scrubby gardens. Most are built of brick and roofed with asphalt. In some streets, mailboxes line the curb. A perfectly ordinary suburb—and, if the city gets its way, a future historic district.

History is not, perhaps, the first thing that springs to mind in Tucson. Although it was founded in the 18th century, the city took shape after the second world war. Thanks to big employers, such as Hughes Aircraft, its population almost doubled between 1950 and 1960. Because land was so cheap, modest houses were built on large plots. Up to 3,000 houses a year were being built, luring buyers with models blessed with such names as the Monarch, the Savoy and the Windsor. Formica countertops, fitted carpets and coloured bathroom fixtures were commonly included in the price.

In general, a building needs to be at least 50 years old before it can be added to the National Register of Historic Places. Owners can choose to pay lower taxes in exchange for not adjusting their properties too much. Since Tucson grew so quickly in the 1950s, potential candidates for the register have mushroomed in the past few years. To help decide which ones to preserve first, the city has commissioned a study that identifies distinctive building and landscaping styles. Among them are such obscure inventions as the Tucson ranch house (wide and low-slung, with a white roof) and the “enhanced desert” garden, an improbable mixture of native cacti, flowering perennials and a little grass.

Jonathan Mabry, the city's historic-preservation officer, explains that Tucson wants to protect buildings from being torn down and replaced with “mini-dorms”—cheaply made structures rented to students at the University of Arizona. The city also hopes historic districts will foster a sense of community, which can be lacking in such a young, fast-growing place.

The desire to preserve post-war houses is not limited to Tucson. Phoenix, two hours' drive north, has slapped strict conservation orders on several suburbs. Preservationists in Los Angeles, who began by saving 19th-century houses, have moved swiftly forward in time and are now trying to protect areas built in the 1950s.

One impulse common to such efforts, Mr Mabry suggests, is a desire to preserve the symbols of a more confident America. The ranch house, which presents its longest edge to the street, allowed the burgeoning middle class to show off. Instead of garages, many had “carports”—shelters attached to the house that are open at the front, the better to display gleaming cars. Big picture windows, handy for showing off televisions and Christmas trees, were also common.

Though widespread in the West, ranch houses were in vogue only for two decades or so. Then houses began to swell, from an average of five rooms in the late 1940s to seven by the 1960s. At the same time, land became more expensive. The solution was to build upwards.

Some suburban developments deserve to be remembered for a different reason. Winterhaven, a neighbourhood in Tucson that was added to the National Register two years ago, features grass and deciduous trees. It is a bold, some would say foolhardy, attempt to recreate the Midwest in the desert, made possible by the fact that the suburb has its own water supply. At the very least, says Brooks Jeffery, an architect who helped petition for the district, such developments are an object lesson in what to avoid in future.

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Snowmobiling in Yellowstone

Where the Arctic cats roam

Feb 7th 2008 | OLD FAITHFUL
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But maybe not for long

YOU might mistake it for a scene in a James Bond film: every day, hundreds of people drive into Yellowstone National Park in long lines of sleek black snowmobiles, machineguns not included. Just outside the preserve, the town of West Yellowstone seems to have been built to accommodate tourists' inner Daniel Craig.

It is easier to get around the hamlet's snow-packed streets by snowmobile than by car. Most of the town is made up of hotels, restaurants and snowmobile rental and repair joints. The inns at this time of year are filled with a mix of first-time riders hoping to catch a glimpse of the park's volcanic splendours and snowmobiling enthusiasts, whose profanity-laced pontifications about the latest makes and motors dominate the town's watering holes.

But for years environmental groups have agitated to ban snowmobiles from the park. Their presence disrupts the doings of animals, they say, and the fumes are bad for the air in the middle of “big sky country”. The greens almost won in 2000, convincing the National Park Service (NPS) to consider prohibiting snowmobiles in Yellowstone. With the backing of the Clinton administration, the rules were set—but only until the snowmobile industry and the state of Wyoming objected.

Regional prosperity depends on tourists eager to squeeze the throttle, they argue. The proprietor of Backcountry Adventures, which leads snowmobile tours of the park, reports that business dropped 75% as the controversy dragged on in the courts through the earlier part of this decade. In the 1990s, an average of 795 snowmobiles a day zoomed through the park; over the past several years that figure has dropped to around 250.

For the past few seasons, the NPS has temporarily capped the number of snowmobiles allowed in at 720 a day. Even then, only particular models that meet noise and emissions standards have been acceptable. Yellowstone being the snowmobiling Mecca it is, the industry produced new machines to serve the niche market. Tourism has begun to rebound.

Now the NPS is trying to ram through a final compromise, the terms of which it published in November. It wants to lower the snowmobile cap to 540 a day. This pleases no one. Underlying the dispute is the philosophical question of what America's national parks are designed for: use by humans or preservation.

Both sides have filed new lawsuits in Washington. Environmental advocates claim that even 250 snowmobiles a day is too disruptive. The new machines are still loud and smelly. Wyoming, on the other hand, wants room for the winter tourist trade to grow. Business owners, fretting about what would happen to the area without the snowmobiles, cite West Yellowstone's boarded-up buildings as evidence of what it was like the last time environmentalists nearly got their way. The state wants the cap to go up to 950 a day.

With the NPS's final compromise looking less than final, the *Billings Gazette* predicts that the outcome to the latest clash will depend on another contest this year: the presidential election. The White House ultimately sets the rules for national parks, and a new president could try to force though different standards. For now, at least, Yellowstone's snowmobile industry is left to die another day.

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Lexington

The people versus the powerful

Feb 7th 2008
From The Economist print edition

Economic populism still has some life left in it

Illustration by Peter Schrank

THE usual fate of populist presidential candidates is to burn brilliantly for a moment and then fizzle out. This happened to Pat Buchanan when he rattled George Bush senior in New Hampshire in 1992. And it happened to John Edwards when he won a strong second place in Iowa in 2004.

This year the populist flame is burning brighter and longer. America has seen not one but two significant populist insurgencies. On the right, Mike Huckabee pitched himself as a “Boys and Girls Club Republican” rather than a “Country Club Republican”—a man who grew up in poverty, worked his way through college, and regards the Olive Garden chain as the height of fine dining. On the left, Mr Edwards again presented himself as the son of a mill worker who knows what it means to see factories shuttered and people thrown into the dustbin.

The two men frequently sounded the same themes on the election trail. Mr Huckabee criticised bosses who ship jobs overseas while stuffing their own pockets. Mr Edwards argued that American politics has been hijacked by “a small band of profiteers that has sold out America in selfish service of their greed and power”. They both railed against NAFTA, free trade, mortgage companies, oil companies and spiralling health-care costs. These torchbearers were joined by a number of pygmy populists. Tom Tancredo crusaded against illegal immigration. Ron Paul raised surprising amounts of cash by demonising the Fed and other sinister forces. Dennis Kucinich continued his perennial presidential campaign against the corporate war machine.

The past few weeks have seen some big setbacks for the populist cause. Mr Edwards dropped out of the race after South Carolina rejected him. Mr Kucinich has returned to Cleveland thoroughly trounced, and is confronted with a revolt among his fellow Ohio Democrats who are tired of his quixotic runs for the presidency. Meanwhile, the front-runners all wear some of the marks of the establishment. John McCain is an orthodox free-trader. Hillary Clinton and Barack Obama are both respected senators.

Yet this has been far from a rout. Mr Kucinich did not belong on the national stage in the first place. Mr Edwards's failure had more to do with the messenger than the message. It is hard to be taken seriously as the scourge of the “two Americas” when you live in a 28,000-square-foot house and spend $400 on a haircut. And Mr Huckabee did surprisingly well on Tuesday night, winning five states and a useful bank of delegates. This was a remarkable achievement for a man who is loathed by the business establishment, who has little in the way of money and organisation, who questions the theory of evolution and who calls for a constitutional ban on abortion and homosexual marriage.

Messrs Obama and McCain have been sounding some populist notes of their own. Mr Obama styles himself the leader of a mass uprising against a dysfunctional political system. Mr McCain is closer to Teddy Roosevelt than to George Bush: he believes in using the power of government to control overmighty corporations and lobbyists. In 2001-05 he scored some of the lowest ratings from the Chamber of Commerce of any Republican senator. He also bills himself as “one of the great enemies of the pharmaceutical companies in Washington”. On the Democratic side, Mr Obama likes to break from his uplifting rhetoric to criticise bosses who “dump” employee pensions while “pocketing bonuses”. Mrs Clinton talks of a “trap-door economy” in which families are just one lay-off away from falling through the floor. Nor is this just a matter of rhetoric. Mrs Clinton and Mr Obama have both run to the left on trade—they say they want to amend NAFTA and they both oppose a recent trade deal with South Korea. They have also put more emphasis on poverty, in a bid to win Mr Edwards's voters.

Meanwhile, conservative populists have humbled the business wing of the Republican Party over immigration. Mr McCain now agrees—through gritted teeth—that America needs to strengthen its borders before giving immigrants the right to earn citizenship. Mitt Romney sounds more like a Minuteman than a Harvard MBA when he talks about immigration. Mr Tancredo has left the presidential race but his poisonous spirit lives on.

No end in sight

There is good reason for thinking that the populist mood will last for some time. Even before the recent economic slowdown, Americans were feeling sour. The 2007 Pew Global Attitudes Survey showed that America has seen the biggest rise in opposition to globalisation of any of the 47 countries studied. Only 59% of Americans think international trade is benefiting the country, compared with 78% in 2002. Three-quarters of them want to see further immigration restricted, and boiling rage about illegal immigration fires the Republican right.

Those fears are likely to be exacerbated in the next few months. The economy is sputtering. Employment is faltering. House prices are dipping. All these worries are particularly marked among one of the most important swing groups in the presidential election—blue-collar voters who are drawn towards the Republican Party on moral and defence issues but who worry about job losses, mortgage foreclosures and the rising costs of health care and college tuition.

This is not to argue that the next president will bow to the populist mood. Mrs Clinton and Mr Obama are both economic centrists who have been showered with businessmen's money. Mr McCain's quarrels are with people who try to fix the playing field rather than with those who are merely very rich. But the populist wind will continue to blow. Although that will be good for the cause of health-care reform, it will make it harder, even for a President McCain, to advance free trade or fix America's broken immigration system.

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Brazil

Happy families

Feb 7th 2008 | MACEIÓ
From The Economist print edition

An anti-poverty scheme invented in Latin America is winning converts worldwide

Panos

MENTION globalisation and most people think of goods heading across the world from East to West and dollars moving in the other direction. Yet globalisation works for ideas too. Take Brazil's *Bolsa Família* ("Family Fund") anti-poverty scheme, the largest of its kind in the world. Known in development jargon as a "conditional cash transfer" programme, it was modelled partly on a similar scheme in Mexico. After being tested on a vast scale in several Latin American countries, a refined version was recently implemented in New York City in an attempt to improve opportunities for children from poor families. Brazilian officials were in Cairo this week to help Egyptian officials set up a similar scheme. "Governments all over the world are looking at this programme," says Kathy Lindert of the World Bank's office in Brasília, who is about to begin work on similar schemes for Eastern Europe.

Bolsa Família works as follows. Where a family earns less than 120 reais ($68) per head per month, mothers are paid a benefit of up to 95 reais on condition that their children go to school and take part in government vaccination programmes. Municipal governments do much of the collection of data on eligibility and compliance, but payments are made by the federal government. Each beneficiary receives a debit card which is charged up every month, unless the recipient has not met the necessary conditions, in which case (and after a couple of warnings) the payment is suspended. Some 11m families now receive the benefit, equivalent to a quarter of Brazil's population.

In the north-eastern state of Alagoas, one of Brazil's poorest, over half of families get *Bolsa Família*. Most of the rest receive a state pension. "It's like Sweden with sunshine," says Cícero Péricles de Carvalho, an economist at the Federal University of Alagoas. Up to a point. Some 70% of the population in Alagoas is either illiterate or did not complete first grade at school. Life expectancy at birth is 66, six years below the average for Brazil. "In terms of human development," says Sérgio Moreira, the planning minister in the state government, "Alagoas is closer to Mozambique than to parts of Brazil." Vote-buying is rife: the going rate in the last election for state governor was 50 reais. "People come to us complaining that they sold their vote to a politician and he hasn't paid them yet," says Antônio Sapucaia da Silva, the head of Alagoas's electoral court.

As well as providing immediate help to the poor, *Bolsa Família* aims in the long run to break this culture of dependency by ensuring that children get a better education than their parents. There are some encouraging signs. School attendance has risen in Alagoas, as it has across the country, thanks in part to *Bolsa Família* and to an earlier programme called *Bolsa Escola*.

The scheme has also helped to push the rate of economic growth in the poor north-east above the

national average. This has helped to reduce income inequality in Brazil. Although only 30% of Alagoas's labour force of 1.3m has a formal job, more than 1.5m of its people had a mobile phone last year. “The poor are living Chinese rates of growth,” says Aloizio Mercadante, a senator for São Paulo state, repeating a proud boast of the governing Workers' Party.

Look hard enough and it is also possible to find businesses spawned by this consumption boom among the poor. Pedro dos Santos and his wife Dayse started a soap factory with 20 reais at their home in an improvised neighbourhood on the edge of Maceió, the state capital. With the help of a microcredit bank, they have increased daily output to 2,000 bars of crumbly soap the colour of Dijon mustard. Nearby, another beneficiary of a microfinance scheme has opened a shop selling beer, crisps (potato chips) and sweets. On the shop's wall hangs a reminder that the state's politics will take longer to change: a campaign poster with the slogan “Collor: the people's Senator”. Fernando Collor was forced to resign as Brazil's president in 1992 after his campaign manager ran an influence-peddling racket. In his home state of Alagoas, though, Mr Collor's political career is thriving.

Despite the early success of *Bolsa Famíli*a, three concerns remain. The first is over fraud. Because money is paid directly to the beneficiary's debit card, there is little scope for leakage. The question is whether local governments are collecting accurate data on eligibility and enforcing the conditions. Some 15% of municipal councils make the improbable claim that 100% of pupils are in school 100% of the time. Despite this, most of the money does go to the right people: 70% ends up in the pockets of the poorest 20% of families, the World Bank finds.

Second, some people worry that *Bolsa Família* will end up as a permanent feature of Brazilian society, rather than a temporary boost aimed at changing the opportunities available to the poorest. Whether this happens will depend largely on whether Brazil's public schools improve fast enough to give all their new pupils a reasonable education. Since the scheme began on a large scale only in 2003, it is still too early to tell.

Third, *Bolsa Família* is sometimes equated with straightforward vote-buying. That is unfair. Luiz Inácio Lula da Silva's name is strongly associated with the scheme—even among some people in Alagoas who are unaware that he is Brazil's president. But their gratitude does not extend to support for his Workers' Party. There are signs that mayors who administer the programme well get a reward at the polls while those who do not suffer. For a relatively modest outlay (0.8% of GDP), Brazil is getting a good return. If only the same could be said of the rest of what the government spends.

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Simón Bolívar

Time to liberate the Liberator

Feb 7th 2008
From The Economist print edition

Venezuela's president rewrites the history of his hero

Get article background

IN LATIN AMERICA it often seems that the past is of more moment than the present, and nowhere more so than in Venezuela. Hugo Chávez, the country's leftist president, invokes Simón Bolívar, the liberator of northern South America from Spain, as his inspiration. He claims to be leading a “Bolivarian Revolution” and has renamed the country the “Bolivarian Republic of Venezuela”.

Last month Mr Chávez took this cult of the past a step further. On January 28th the official gazette carried decrees setting up two investigative committees. The first will look at (deteriorating) public health in the capital. The second, composed of the vice-president, no fewer than ten ministers, the attorney-general and the head of the cultural institute, has a weightier mission: its job is to “clear up the important doubts woven around the death of the Liberator”. In December, Mr Chávez said that Bolívar might have been poisoned by his Colombian opponents. That is not his only extravagant claim. He has implied that Bolívar was a socialist or even a communist, comparing him to both Mao Zedong and Che Guevara.

Bolívar was indeed a great military leader. He believed that the newly liberated countries should stick together. In that sense he is rightly held up as an early champion of Latin American integration, even though sticking together proved impossible. Yet many of his political ideas were very different from Mr Chávez's.

Bolívar was a Venezuelan aristocrat who inherited estates and mines. He was a man of the Enlightenment, a reader of Adam Smith and John Locke as well as of Voltaire and Rousseau. He was an economic liberal who freed his own slaves, but a political conservative. He believed the new republics needed strong government. He admired the United States, although he feared its potential power. He was a devoted Anglophile—hardly the attitude of an “anti-imperialist”.

His soldierly imperiousness caused him to be disliked in Peru and in highland Colombia. In 1828 a group of conspirators in Bogotá, tiring of his dictatorship, broke into the presidential palace bent on murdering him. Bolívar escaped. But after the (unconnected) murder of Sucre, his most loyal general, he set off, ailing and disillusioned, for a proposed exile in Europe.

Bolívar got as far as the port of Santa Marta, where in 1830 he expired from tuberculosis. In a beautifully written novel, “The General in his Labyrinth”, Gabriel García Márquez, a Colombian writer, modishly portrayed Bolívar as a man of the people traduced by a reactionary oligarchy. But neither Mr García Márquez nor any serious historian has suggested that he was poisoned. John Lynch, his most recent biographer, points out that the dying Bolívar was watched over by a “qualified and conscientious” French doctor whose medical bulletins were published in Caracas in 1875-78. In his book, Mr Lynch accuses Mr Chávez of “a modern perversion” of the longstanding cult of Bolívar encouraged by many Venezuelan presidents.

It was surely not coincidental that Mr Chávez made his poisoning claim while trying to stir up nationalist feeling against Colombia, accusing its generals of wanting to assassinate him. As the bicentenary of the start of Latin America's independence struggle in 1810 approaches, it may be time for a different sort of investigative committee to be set up. Let historians liberate the poor Liberator from the politicians who would abuse his name.

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Chile

The slow lane

Feb 7th 2008 | SANTIAGO
From The Economist print edition

Fallout from a botched transport reform

Get article background

A FREE hand to redesign a city's bus services from scratch may be a transport planner's dream. But the overhaul of Santiago's public-transport system, launched in February 2007, has turned into a nightmare for commuters in Chile's capital. A year on, the multitude of flaws and glitches in the new scheme, called Transantiago, are gradually being fixed. The political damage to Michelle Bachelet, the country's president, and her predecessor, Ricardo Lagos, looks harder to repair.

The new scheme was the most ambitious transport reform ever tried by a developing country, says Darío Hidalgo of the World Resources Institute, a think-tank in Washington, DC. It involved some 200km (125 miles) of dedicated bus lanes, and the wholesale reorganisation of bus routes to integrate them with the city's metro. But Transantiago has become a model of how not to reform public transport. It brought misery for commuters: more changes to complete typical journeys, long queues for full buses and gross overcrowding of the metro.

A new transport minister, René Cortázar, has gradually ordered the chaos. He negotiated contract changes with private bus firms; there are now more buses, more flexible bus routes and less congestion on the metro. The pre-paid smart card works, though not yet the satellite technology to control bus movements. Officials now recognise that Transantiago, which was designed to be self-financing, will need a long-term subsidy of up to $40m a month.

The chaos was all the more shocking to Chileans because they like to think of their country as the best-organised in Latin America. Officials admit that planners and politicians made big mistakes. These included President Bachelet's decision to launch the system when almost none of the bus lanes and the technology was ready. Other cities, such as Bogotá, Colombia's capital, have adopted similar rapid-transit systems based on bus lanes, but have done so piecemeal, allowing glitches to be fixed quickly. And in Santiago, the planners imposed arbitrary routes that took little account of passengers' habits.

Ms Bachelet's approval rating has fallen from 50% to 39% over the past year, according to the Centro de Estudios Públicos, a pollster. Her disapproval rating in Santiago stands at 48%, compared with 38% elsewhere. The reputation of Mr Lagos, whose government designed Transantiago, has also suffered. Hugely popular on leaving office in 2006, any ambition he might have to win the presidency again in 2009 looks stalled, for now at least. Like a broken-down bus.

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Colombia

Facing down the FARC

Feb 7th 2008 | BOGOTÁ
From The Economist print edition

Public sentiment turns against the hostage-takers

AFP

FARC off

Get article background

IT WAS the first time Facebook, a social-networking website, has been used to organise what many have described as the largest demonstration in their country's history. On February 4th more than a million people in Colombia, and smaller groups in dozens of cities across the world, took to the streets to repudiate the FARC guerrillas. In doing so they may have changed the terms of the debate about how to free the 750-odd hostages held by the guerrillas, some for a decade.

The FARC wants to swap 44 of its more prominent captives—politicians, including Ingrid Betancourt (who has French as well as Colombian citizenship), army and police officers and three American defence contractors—for its jailed prisoners. Colombia's president, Álvaro Uribe, has faced pressure, especially from France, to bow to the guerrillas' demand to pull troops out of a large area to allow this swap to take place.

In November the FARC released harrowing images of emaciated captives, including Ms Betancourt, to prove they were still alive. They continued their macabre game with the country's emotions by promising to release three hostages, lying about having one of them and then delaying the handover of the other two to Venezuela's president, Hugo Chávez.

That prompted Oscar Morales, a young engineer, to set up on Facebook a group called “One million voices against the FARC”. The media took up his call for a march. The government cleverly stayed out of its organisation, although it gave public workers time off to attend. The opposition was divided, with some calling for protests against abuses by the security forces too, but in the end many of its leaders marched.

The marches appear to mark a turning point in public sentiment. “Instead of blaming the government for the fact that the hostages are still in the jungles, people now blame the FARC,” says Gerson Arias of Ideas para la Paz, a Bogotá think-tank. The demonstrations were also a snub to Mr Chávez, who last month said that the FARC should be seen as a “true army” with a political project, rather than a terrorist organisation. Mr Uribe had briefly invited Mr Chávez to intercede for the hostages' release before the two men quarrelled in November.

The day before the march the FARC said it would turn over another three of its captives to Mr Chávez because of their poor health. Ironically, Venezuela's involvement has also taken some of the pressure off Mr Uribe. “The families keep their eyes on the only thing that has worked so far—Caracas,” says León Valencia, a former guerrilla who is now a political analyst. As for the FARC, this week has underlined yet again that the guerrillas survive by drug trafficking and other crimes, not through public support.

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Canada

Gangland

Feb 7th 2008 | VANCOUVER
From The Economist print edition

Drug-fuelled violence mars an idyll

IT MAY be just a pinprick compared with the mayhem in Mexico. But for many of the 2.2m residents of Vancouver, accustomed to idyllic calm, a spate of gun killings is starting to give their city the aura of prohibition-era Chicago. In violent battles over power and money, brazen young bandits are blowing each other to pieces for a piece of another prohibited market—that for drugs.

The latest involved a young man gunned down as he left a party on February 2nd. A fortnight earlier two gunmen fired on a Land Rover as it arrived at a downtown steakhouse, killing a cocaine dealer just out of prison and another gangster. The most shocking of 21 gang killings in the city last year was the execution of six men, four of them known villains, in a suburban flat.

Canada's murder rate is still only a third of that in the United States. But violence by gangs (now estimated to number 950) has been rising for two decades. Vancouver seems to have become its new centre, thanks to its importance as a hub for the production and export of marijuana. The drug trade in the province of British Columbia generates an estimated C$7 billion ($7 billion) a year, creating a glitzy gang culture where, as a Vancouver policeman moans, “handguns are as ubiquitous as cellphones.”

The police have set up a specialist team of city and provincial officers to target the gangs. But there have been no arrests in connection with the latest shootings, and few prosecutions over the past 20 years. The gangsters take care not to leave witnesses or evidence.

They are helped, too, by police undermanning. Superintendent John Robin, who heads the gang task-force, says he can monitor fewer than a third of the 129 gangs in British Columbia. The provincial government is doing rather more than the city, which last year added only 17 extra police (the force wanted 65 more). The federal government is introducing tougher laws on gun crime and drug trafficking, and promises to pay for 2,500 extra police; Wally Oppal, British Columbia's attorney-general, hopes for an extra 350 of them for the province.

Some would like to see British Columbia learn from Quebec's success in tackling biker gangs. Its provincial government has spent more than C$115m over the past decade on special teams of prosecutors and police and a fortified court, arresting 134 bikers and convicting most of them. Traditionally, British Columbians have been laid back about drugs. With each shooting they are becoming less so.

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Afghanistan and NATO

Where the sniping has to stop

Feb 7th 2008
From The Economist print edition

Infighting in NATO isn't helping Afghanistan

AFP

Get article background

MIGHT Afghanistan's “forgotten war” yet defeat the most successful military alliance in history? Last year saw NATO-led troops engage in their deadliest fighting yet in support of the government of Hamid Karzai. The winter snows that blanket Afghanistan's mountains have for now quietened the frontlines. But roadside bombings and suicide attacks—tactics the Taliban have picked up with increasingly lethal effect from al-Qaeda operatives in Iraq—still take their toll among Western forces and ordinary Afghans.

Yet it is not the spectre of military defeat that haunts NATO. It is a failure of political will. This week, as alliance defence ministers gathered in Vilnius, and Condoleezza Rice, America's secretary of state, and David Miliband, Britain's foreign secretary, dropped by unannounced in Afghanistan, all could agree that the job of stabilising the country needs more troops and a better co-ordinated reconstruction effort. But the political sniping over who should be doing what has reached an intensity that only the Taliban can celebrate.

More soldiers will turn up before the snows melt and before NATO leaders gather for a summit in Bucharest in April. America is sending an extra 3,200 marines; a report by two prominent former officials, Thomas Pickering and General James Jones, recommends deploying still more as troop levels drop in Iraq. Poland hints it may add to the more than 1,000 soldiers it deployed last year. France has just sent more aircraft, may soon send a few extra troops to help train and fight alongside Afghan army units, and is thinking of other ways it might help. The fresh troops Britain is shortly to rotate in will have more armoured vehicles and helicopters.

The trouble is that “there are certain allies that are in much more dangerous parts of the country,” as Miss Rice put it not-so-diplomatically this week—and some who just won't go. Canada, Britain and the Netherlands, the NATO members, along with America, bearing the brunt of the fighting in the volatile south and east of the country, would welcome some relief. A report commissioned by Canada's government recommended last month that the hard-pressed Canadian contingent in Kandahar province stay on beyond 2009 only if another 1,000 soldiers can be found from somewhere to help out. No volunteers so far, though Canada's withdrawal would be a serious blow.

Germany is under greatest pressure to help: its soldiers are confined by parliamentary edict to the safer north. Some German commentators fret that this is badly straining NATO and putting the country's loyalty to the alliance in doubt. But few politicians are ready to make the public case for deploying forces

to the more dangerous south.

America's defence secretary, Robert Gates, also gets a medal for damaging alliance solidarity. He infuriated both Britain and the Netherlands by suggesting that European troops operating in the south were not much good at counter-insurgency tactics. Yet even he knows that one thing worse than fighting a war by coalition is having to fight without one.

Another blow was President Karzai's decision to veto the appointment of Britain's Paddy Ashdown as the UN's much-needed co-ordinator of the disparate international reconstruction effort. Mr Karzai was reportedly miffed at British plans to entice some Taliban to camps, offering them basic military equipment if they would join the fight against extremists—rather as America has been doing with Sunni groups in Iraq.

Share any burden?

Afghanistan coalition forces	Troops, latest	Deaths since 2001
United States	29,000	483
Britain	7,800	87
Germany	3,210	25
Canada	2,500	78
Netherlands	1,650	14
France	1,515	12
Poland	1,100	1
Others	10,475	64
Total	**57,250**	**764**

Sources: ISAF; US Department of Defence; iCasualties.org

But Afghanistan's problems—desperate poverty, fragile and corrupt government, and a drug-financed insurgency—can't wait for prickly politicians to sort out their differences. It is those politicians, rather than the troops battling the Taliban, who are courting defeat.

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China's weather

Frozen assets

Feb 7th 2008 | NANCHANG
From The Economist print edition

So long as people criticise the weather, the government can weather the criticism

AFTER a week of anguish, Liu Xiaoqiang could heave a sigh of relief. So too, perhaps, could China's government. By the eve of the lunar new year holiday, unusually severe winter weather and crippling transport bottlenecks had eased. Power cuts and food shortages persisted in many parts of southern China. But the worst appeared to be over.

For Mr Liu, a migrant from rural Anhui who has spent the past year as a building worker in Nanchang, victory came on February 5th, when he finally secured a train ticket home. For the previous week he had spent the days battling crowds in the cold, damp and dirt of Nanchang's station. Nights were passed in a shabby room nearby. He felt lucky to find it, but it cost hundreds of unbudgeted yuan—and he earns just 1,000 yuan ($139) a month.

AP

And the trains don't run on time

A heavy police presence at Nanchang's station (and the minefield of human excrement on the pavements just outside) attest to how fraught things have been. In southern and central China, snow, ice and freezing rain left millions stranded on the roads or at railway stations. Fallen transmission lines, frozen equipment and coal shortages caused power cuts across 17 provinces; at least 11 electricians died making repairs. In some places water supplies have failed, and food has run short. Almost everywhere food prices have risen.

For a government that bases its claim to legitimacy on its competence and ability to guarantee the supply of basic necessities, all of this might seem threatening. Yet like many others, Mr Liu blames what he calls “the worst weather in decades”, rather than the authorities.

Not everyone is happy to leave it at that. The disgruntled probably include the millions still suffering from shortages of power and water, and those who have reluctantly heeded the government's call to scrap their cherished holiday visit home.

Government leaders have dispatched army and police forces to keep order and work crews to get things moving again. They have also gone out of their way to express concern and, in the familiar ringing idiom of martial mass-mobilisation propaganda, show they have taken charge. Wen Jiabao, the prime minister, visited stations in three provinces, offering sympathy and vague apologies for unspecified failures. President Hu Jintao went down a coalmine to inspire miners to step up their output. On February 2nd Wu Yi, a deputy prime minister, popped up at Nanchang station, urging local officials to “be fully aware of the arduousness and gravity of the snow-havoc battle”.

According to Fang Xiu'an, of the China Coal Transport and Distribution Association, which handles marketing for coal producers, the authorities deserve high marks for responding to the crisis. They worked quickly to increase coal production, to give deliveries of coal priority over other cargoes, and to start fixing transport and power disruptions.

But he also faults bureaucrats in the coal and power industries. Power plants that normally stock 18-20 days' worth of coal had in some cases run their reserves down to as little as three days' worth. Planners, says Mr Fang, should have been more alert to warning signs that these dangerously low stockpiles made China vulnerable. The causes of the supply crunch are clear enough. Since 2005 the government has ordered thousands of unsafe

and poorly managed coalmines to shut down, reducing production. Lower output, together with unusually cold weather, forced up prices. From December to January, the price of premium coal rose by 13%, from 575 yuan a tonne to 650 yuan. But electricity prices are fixed, and, unable to pass on costs, power producers had been waiting for seasonal price cuts in March before stocking up.

Equally clear is the reasoning behind these policies. Rising inflation has unnerved citizens and officials alike, and power-price controls are one way to stem it. Lax mining standards, meanwhile, have led to a gruesome string of coalmine accidents and a scandalous yearly toll of thousands of dead miners. The government has justifiably been under pressure to act.

The transport crisis has highlighted the fragility of China's tightly strung infrastructure, as well as the conflicting pressures facing policymakers as they try to keep the economy growing. Yet the overall economic impact of the weather crisis, like the political fallout, may be limited. Officials have reported direct economic losses of 54 billion yuan in damage to buildings and crops, a figure that is bound to rise. But government economists insist that the long-term effects will be mild. Many foreign analysts agree that they will, as one puts it, “vanish with the melting snow”. Jonathan Anderson, an economist in Hong Kong for UBS, an investment bank, calls it a “very temporary, short-term shock” and sees no cause yet to revise his growth forecast for China's economy.

Even if they seem to have weathered this storm, China's leaders must be pondering the lessons it offers. The government may not have all that long to make good on its earnest promises to do better in future. In under two weeks, for example, Mr Liu will be trying to buy a ticket back to his job in Nanchang.

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Iraqis in China

The ecumenism of commerce

Feb 7th 2008 | YIWU
From The Economist print edition

Iraqis and other Middle Easterners transform a Chinese market town

AT THE Baghdad Restaurant in downtown Yiwu a score of Middle Eastern men are watching an Arabic news documentary on television. Kurd and Turk, Baghdad Shia and Saudi Arabian Wahhabi have bridged the sectarian rifts that bedevil their homelands. “We're all Muslims,” says an Iraqi when asked if he identifies himself with Shia or Sunni. “There's no big difference between us.” Having left home not least because of persistent tensions—“I'm here because in my country there's too much fighting to do business,” says the restaurant owner—these men have no intention of replicating them here in China.

Their sense of solidarity is deepened by the loneliness of being in a foreign country. Some of them have been based here as long as eight years. But most of Yiwu's Middle Easterners have only a rudimentary grasp of Mandarin. “It's hard learning a new language at my age,” sighs one Iraqi. Commerce forms their chief bond with Yiwu, China's largest small-commodities market. The Middle Easterners come on long-term business visas; after buying cheap clothes and hardware in bulk, most jet to Dubai, Baghdad or Tehran before returning for another six months of trade. Some work as consultants or visa agents. For the entrepreneurially inclined, Yiwu offers a wealth of opportunity.

The Middle Eastern presence has served as a magnet for Chinese Muslims. Although Arab merchants called here in centuries past, Yiwu had virtually no Muslims till about 2000, when Middle Eastern traders were drawn to its burgeoning market. Hui (members of China's indigenous Muslim minority) from as far as Yunnan, Gansu and Qinghai in the west followed. Yiwu is cosmopolitan and friendlier to Islam than parts of China's west. Many of the Hui who come speak Arabic, allowing them to find lucrative jobs with Middle Eastern businessmen. At its peak, says a local imam, the city's Muslim population (foreign and Chinese) now reaches 20,000.

The Muslims keep apart from the Han Chinese; the Hui tend to feel that they have more in common with their co-religionists than with their compatriots. “The problem with China,” says one Hui, “is that it's an atheist country, which means people do whatever they want to.” Some of the Han, especially poorer people, denounce the Arabs' “bad influence”. Even so, business is booming and, as successful capitalists, Han, Hui and foreign Muslim alike know better than to let prejudice interfere.

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China and Myanmar

Our friends in the north

Feb 7th 2008 | KYAUKPHYU
From The Economist print edition

Shunned by the West, Myanmar is developing ever closer commercial links with its neighbours, especially China

Get article background

MOST locals, who are lucky if they enjoy two hours of electricity an evening, are unaware of their region's bounty: South-East Asia's biggest proven gas reserve lies in the Shwe field, just off the coast of Ramree Island. This year work will begin on a pipeline to carry these riches to China. From perhaps as early as late 2009, a parallel pipe will carry Middle Eastern and African oil from a new deep-water harbour at Kyaukphyu, bypassing the Strait of Malacca and fuelling the economy of China's south-west.

The site of the harbour, like the former fishing grounds where the gas lies, is now strictly out of bounds to locals. Despite a small poster campaign by underground activists, few people here know much about it. Those who do are worried. According to one, farmers fear losing their land. They have good reason for concern, judging from the mass dispossessions and human-rights abuses that surrounded the construction of earlier pipelines from the south to Thailand. Residents of nearby Baday Island have already been told that they must leave.

China is not the only country in the region nervous about its “energy security” and thus hungry for Myanmar's energy resources. India also hoped to buy the Shwe (“golden”) gas, offering the government soft loans and other inducements. In August India signed a $150m contract for gas exploration further south in the Gulf of Martaban. One day India hopes to build its own pipeline into its poor, remote, insurgency-ridden north-eastern states.

Until the Shwe gas comes on stream, Myanmar's biggest export market will remain Thailand. In purchases worth $2 billion a year, Thailand's electricity authority imports gas from the Yadana and Yetagun fields. But China offers the Burmese junta particular advantages. As a permanent member of the United Nations Security Council, it can veto threatening resolutions, as it did a year ago (just three days before it secured exploration rights to three more offshore blocks near Ramree).

There are even reports that Myanmar may soon start conducting all its Chinese trade in the Chinese currency, the yuan. This sounds odd, since it is not fully convertible and Myanmar expects soon to have a large trade surplus. The rationale would be to avoid Western banking sanctions. American measures introduced after the crushing of monk-led protests last September hurt Burmese financial interests in Singapore. This week, America tightened sanctions on the ruling junta's families.

Chinese trade extends beyond energy. The new pipelines will follow the route of the old British-built Burma Road, which still carries timber, gold, gemstones and other Burmese raw materials north to China and brings in cheap manufactures. Around 20 Chinese companies are working in Myanmar on scores of projects including hydropower, mining and road-building as well as oil and gas. Ruili, the main border-crossing between northern Myanmar and China's province of Yunnan, has become a seedy boomtown.

Under construction, and soon to eclipse the Burma Road is a new “Southern Silk Road”, linking India to China across northern Myanmar. Parts of the long-derelict route were first opened by the Allies during the second world war to supply Chiang Kai-shek's Chinese army in its war with the Japanese. Today it gels

neatly both with India's determination to develop the north-east and with China's plans to close the gap between its booming east coast and the laggardly western interior. Yunnan needs energy supplies and markets, and its businesses and officials are little bothered by the human-rights concerns that have led some Western governments to impose limited sanctions.

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Bangladesh

Looking for the exit

Feb 7th 2008 | DHAKA
From The Economist print edition

It is hard to find, leading to fears that the army might overstay its welcome

Get article background

MORE than a year after Bangladesh's generals intervened in the country's failing democracy, they have yet to lift the state of emergency and declare a date for the parliamentary election they have promised by the end of 2008. This week the political parties, the election commission and foreign powers stepped up the pressure on the generals to leave politics.

The two big political parties, the Awami League and the Bangladesh Nationalist Party (BNP), called for the poll to be held by June. But the election commission said some 50m voters (out of an estimated 80m) were yet to be registered. The election date would not be set until September. More important, the parties are calling for the release of their detained leaders, Sheikh Hasina Wajed and Khaleda Zia, both former prime ministers, known as the two “begums”. Corruption allegations against these feuding heads of competing kleptocracies seem to have done little to dent their popular appeal.

This complicates the generals' plans. The begums have won at least 70% of the popular vote in every election since the end of the last military regime in 1990. After failing to send them into exile last year, or to convince the parties to ditch them, the army must now trust that judges will convict them both. Under new electoral rules, this would bar them from the next election. But the legal cases seem ill-prepared and credible convictions unlikely. This week the first of four cases filed against Sheikh Hasina appeared close to collapse. The trial against Khaleda Zia, prime minister till October 2006, is yet to begin. Her party, the BNP, is a shambles. It has split, but its reformist faction is too weak to challenge the League.

It seems certain that the calls to release the two women will intensify. In the absence of other leaders, this gives the army a choice: democracy and the two begums or no begums and no democracy. Determined not to let them back, the generals, it is feared, may choose the latter course.

One way out would be the creation of a national government of all the parties. The idea has been around since before the army intervened to install a civilian interim government in January 2007. But, if freed, the former prime ministers are more likely to pursue revenge than co-operation. The same goes for the 200-odd other politicians and businessmen locked up in the anti-corruption drive.

The interim government has worked hard and effectively to repair the country's battered institutions and prepare the ground for elections. But doubts remain about what real power a new parliament would have. Talk about the creation of a National Security Council to formalise the army's role in politics, as in Pakistan, has not died down.

The longer the emergency persists, the less likely a graceful, timely exit by the army becomes. Its dilemma is increasingly bothering Western governments and donors. Both supported the army's intervention and anti-corruption drive. But the muzzling of the press and continuing human-rights abuses have strained their patience. Unlike Pakistan, however, which has nuclear weapons, a terrorist network and dangerous ethnic divisions, Bangladesh, for all its frightening troubles, does not seem to provoke a real sense of urgency among foreign governments.

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India's Christians

The cross they bear

Feb 7th 2008 | BOTHALI
From The Economist print edition

Politics fuels religious violence

THE blackened shell of a burnt car lies in the yard of Radha Bai's farm in this bucolic village of whitewashed houses and unhurried bullock carts in the central Indian state of Chhattisgarh. On January 16th, as she prayed with a large group of Christians, a mob of Hindu extremists arrived. They chased worshippers away, set fire to a car and ten motorcycles and, says Mrs Bai, threatened to cut her “into pieces”.

In recent weeks Hindu extremists in India's “tribal belt”—where missionaries have long sought to convert traditionally animist forest-dwellers—have stepped up a vicious anti-Christian campaign. Over Christmas in neighbouring Orissa mobs set fire to 55 churches and 600 houses. Asghar Ali Engineer, of the Centre for Study of Society and Secularism, a Mumbai think-tank, calls it the worst anti-Christian violence independent India has seen.

AP

Marching as to war

Ramesh Modi, Chhattisgarh state president of the Vishwa Hindu Parishad, or World Hindu Council, which propagates “Hindutva”, or “Hinduness”, says that Christians are “responsible for the violence themselves”. Missionaries in the area, he says, are converting Hindus illegally. Chhattisgarh and Orissa are among several Indian states to have laws banning forced conversions.

It is true that an expansionist evangelist movement is in full swing in India's tribal belt. Its targets are tribal people, Hindus, even Christians, many of whom say they have switched churches to join independent Pentecostal groups. Officially, fewer than 3% of Indians are Christian. But Arun Pannalal, of the Chhattisgarh Christian Forum, reckons the true proportion may be twice that. Christian converts often claim to be Hindus to keep access to government jobs and college places “reserved” for Hinduism's lower castes. Most Indian Christians are *dalits*, at the bottom of the caste system, once known as “untouchables”.

Mr Pannalal, whose own church belongs to the Anglican Communion, regrets the proselytising style of some pastors, and their habit of ripping into Hindu gods from the pulpit. They lay themselves open to accusations of illegal conversion. More than 230 people have been arrested on conversion charges in the state in the past two years. But Mr Pannalal says very few cases go to court “because the conversions are not forced and there is no case”.

As in other religious conflicts in India, the trouble between Christians and Hindus in the tribal belt has more to do with politics than theology. In Orissa, the Christmas violence was mostly directed at Catholics, who tend not to proselytise. But identifying religious minorities as a common enemy has proved an effective rallying cry for right-wing Hindu groups.

In December the Hindu nationalist Bharatiya Janata Party (BJP) won elections in the western state of Gujarat, where it has had a well-documented hand in the persecution of Muslims. Christians in the tribal belt believe Hindu extremists have been emboldened by its success. Later this year, Chhattisgarh itself goes to the polls. Christians fear more violence.

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Sri Lanka

Not much to celebrate

Feb 7th 2008 | COLOMBO
From The Economist print edition

A country under siege at 60

Get article background

WHEN it gained independence from the British, Sri Lanka was an island of peace in a subcontinent bloodied by religious strife. February 4th, the 60th anniversary of independence, was marked by a military parade in Colombo. But it did not pass without reminders of what Sri Lanka has become: a blood-soaked victim of ethnic strife and terrorism.

A bus bomb killed 12 civilians in Weli Oya, in the north-east. A spate of bombings across the country had a day earlier seen 15 people killed at Colombo's main rail station. On February 1st 20 Buddhist pilgrims were slaughtered in a bombed bus in north-central Sri Lanka. In all of these outrages could be detected the hand of the Liberation Tigers of Tamil Eelam, which has been waging a separatist insurgency since 1983. However, a mine blast in north-west Sri Lanka on January 29th, in which 11 schoolchildren perished, was blamed on government soldiers.

AFP

The army on parade and at war

Since 1983 the war has killed some 70,000 people. Of the country's 20m people, more than a million have fled abroad. Hundreds of thousands have been displaced internally by terrorism and war. Indeed, for Sri Lankans, the ethnic conflict, between the Sinhalese majority and the Tamil minority, has been the most critical issue since independence. It has led to economic decline and even the fear of losing sovereignty to Tamil separatism or possible foreign intervention.

Sri Lanka has become the most militarised state in South Asia. In 2008 the government is to spend 166 billion Sri Lankan rupees ($1.5 billion) on the army. With its finances in poor shape, the country depends heavily on foreign aid. To finance subsidies and a whole range of populist but unproductive expenditure, it has taken to printing huge amounts of money. This has contributed to soaring inflation, which reached an annual rate of 21.6% in 2007.

Last year the army gained victories in the east of the country. This year it hopes to extend its successes into the Tigers' strongholds in the north. The government of President Mahinda Rajapaksa hopes this will keep the lid on social unrest in the Sinhalese-dominated south. General Sarath Fonseka, the army commander, has vowed to finish the war this year. But in the past four months his troops have advanced only 8km (5 miles) in the western district of Mannar and are facing stiff resistance all along the northern Jaffna front.

To stretch the army, and sow panic among the Sinhalese, the Tigers have resorted to naked terrorism all over the island with chilling regularity. In a report this week Amnesty International, a London-based human-rights watchdog, accuses both the government and the Tigers of flouting international humanitarian law and killing civilians regularly. It said the perpetrators are never brought to justice and “a climate of impunity is becoming entrenched”. Some birthday.

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Bougainville

Explosive mines

Feb 7th 2008 | CANBERRA
From The Economist print edition

A dispute over who owns the minerals brings echoes of a bloody war

ROWS about minerals sparked the decade-long civil war between Bougainville and Papua New Guinea (PNG). Now Bougainville's politicians are hoping mining revenues will allow them to repair destroyed infrastructure and raise living standards. But this has brought them into conflict with PNG about the terms of the autonomy arrangements that ended the war in 1997, and raised questions about the rightful ownership of the mineral deposits secreted under the island's towering, rainforest-covered mountain ranges.

PNG's prime minister, Sir Michael Somare, and his influential deputy, Puka Temu, visited Bougainville in late January for negotiations. They acknowledged the need to transfer supervisory powers over mining to the Autonomous Government of Bougainville (ABG), but Mr Temu argued that “the state”, ie, PNG, should remain owner of all the resources. Joseph Kabui, president of the ABG since 2005, strongly disagrees. He argues that if his government were to accept PNG's ownership of the resources, it would lose all support and there would be a serious danger of the rebellion's beginning again.

That rebellion, which some claim cost 15,000-20,000 lives, was sparked by landowner disputes centred on the distribution of revenues from the vast Panguna copper mine operated by a Rio Tinto subsidiary. When the PNG government sent in the army to quash the rebellion, it escalated into an independence struggle, led by the Bougainville Revolutionary Army (BRA). PNG's soldiers withdrew after a 1990 ceasefire. But the embattled island then endured a long and debilitating conflict among the islanders themselves.

The peace agreement eventually reached between BRA leaders and PNG politicians in 2001 entailed the PNG government's accepting greater autonomy for Bougainville and a referendum on independence, to be held at some point between 2015-20. In the intervening period, powers were to be devolved to the ABG. The latest dispute centres on the first big transfer of powers under the new arrangements. That this devolution of authority concerns mine ownership and regulation reinforces its sensitivity.

Mr Kabui and his ministers argue that the mine-ownership issue matters little to the national government, but is of pivotal significance to Bougainville. The formula for the division of royalties already gives 20% to the landowners and 80% to the local government, leaving nothing to the central government. The biggest source of mining revenue is company taxation, the distribution of which Mr Kabui agrees must be negotiated with the national government. But the PNG government is worried, regardless of the financial implications, that the inexperienced ABG will be hoodwinked by the unscrupulous international mining companies waiting in the wings. That may indeed be a real danger, but a peace settlement that provides for autonomy should leave room for Bougainvilleans to learn to handle tough negotiations by themselves.

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Kenya

Ethnic cleansing in Luoland

Feb 7th 2008 | KISUMU
From The Economist print edition

Peace talks get nowhere as western Kenya becomes ungovernable

Get article background

AS THE road approaches Kisumu, Kenya's third-biggest city and capital of the Luos, the country's third-biggest but angriest ethnic group, it becomes littered with rubble and burnt vehicles. A man beats at a smouldering ambulance's number-plate with his machete. “See,” he explains, “this belongs to the government of Kenya.” Mobs cry out for their fellow Luo, Raila Odinga, to be made president of Kenya. They plead for guns. An earnest man pushes to the front of one mob. “What we are saying is give violence a second chance.”

On a bridge outside Oyugis, a small town a couple of hours' drive south of Kisumu, angry Luos have overturned a lorry, pulled down a telegraph pole and are waiting. When your (white) correspondent happens along, they take aim with stones, machetes and poles. But what they wanted was a Kikuyu to kill—any Kikuyu. All the main roads in the area are punctuated with road blocks. Some travellers do not get through. At least 25 have been hacked to death or killed with poisoned arrows in Nyanza in the past few days.

Across Luoland, from the unlettered to the university-educated, they tell the same tale of woe: that they have been politically and economically maltreated since independence. Provision of electricity and roads is far worse than in Kikuyuland. Many government projects in Nyanza, including cotton- and rice-growing, have failed. It irks Luos that the fish they catch in Lake Victoria are processed by Kikuyus in distant Central Province. A brain drain of able Luos into Kenya's civil service has dried up. Luos say that a Luo name is sometimes a handicap in getting a job in business. Poverty among Luos has risen, even as Kenya's economy has grown.

In the past few weeks, Kisumu has been ethnically cleansed. The Luos have driven out 20,000 or so Kikuyus from a population of 380,000; few will return. Every Kikuyu business and home has been looted and burned. The UN recently chose Kisumu as a “millennium city”, with plans to turn it into a kind of hub. Now many of its streets are gutted and charred. Thousands of jobs have been lost; nearly three-quarters of Kisumu's people are out of work.

Luo bitterness has deep roots. Most Luos still believe that Mr Odinga's populist father, Oginga Odinga, Kenya's first vice-president, was cheated and abused by Kenya's ruling Kikuyu elite after independence in 1963. Many still hark back to the unexplained assassination in 1969 of Tom Mboya, another Luo they believe was destined for the presidency. In 1990 another Luo hero, Robert Ouko, then Kenya's foreign minister, was also murdered.

A sense of economic desolation as well as political turmoil pervades the Luo fishing villages edging Lake Victoria. Since the election, insecurity has driven fish buyers away. Even if they come, the price is low. As

there is no electricity and no refrigeration, the buyers drive hard bargains. Prices for basic foodstuffs have risen steeply, with sugar and maize meal costing double since the election.

In the past decade or so, Luoland has been particularly hard hit by AIDS; malaria has long been endemic. George Onyango, a 40-year-old fisherman in the village of Bao, west of Kisumu, reckons that a quarter of his childhood friends are already dead. The village nurse has no antibiotics, let alone good transport. Villagers rail against Kikuyus, though no one remembers a Kikuyu ever living there. “If we could be our own country it would be different,” says a wistful elder.

The longer-term effects of the ethnic cleansing are beginning to register. Professor Allan Ogot, a distinguished Luo historian who is chancellor of Moi University in Eldoret, says that Kenya's research institutes have been ruined and that its universities may well follow suit. He has been confined to his house in Kisumu. A woman and child were shot dead outside his front gate. No amount of security, he says, will lure back the Kikuyu and Kamba students who made up half of Nyanza's Maseno University. “Our universities will be worse than primary schools,” he says. “My question now is, is there a Kenya left to save?”

Nobody has been angelic

Kenya's 4m or so Luos, most of them in Nyanza, voted overwhelmingly for Mr Odinga in the disputed election on December 27th. The Kikuyu-led party backing his rival, the incumbent president, Mwai Kibaki, was most blatant in ensuring that his tally of votes in the Kikuyu heartland north of the capital, Nairobi, was inflated. But Mr Odinga's Orange Democratic Movement was not spotless; some ballot boxes in Nyanza were reportedly stuffed on his behalf. In any event, nearly all Luos still want Mr Kibaki forced from office. If he stays, they say, it will mean civil war. There is a risk that Luoland might peel off—and a further risk that Mr Kibaki may feel forced to send in troops to stop that happening. For the time being, the Luo areas look ungovernable by Mr Kibaki or by any Kikuyu-led administration.

In other parts of Kenya, not just in Luoland, the mood is so febrile that it is hard to see how the social fabric can be restored. Atrocities have been widespread. Most of the Luhya (the country's second-biggest group, unrelated to the Luo), most of the ten or so Kalenjin-speaking peoples of the Rift Valley, most of Kenya's Muslims and most of Kenya's poor in the vast slums that ring Nairobi backed Mr Odinga. Many of them are angry. Some have vented their spleen against Kikuyus living among them, often chasing them away, burning their houses and shops and sometimes killing them.

The violence has been especially bad in parts of the Rift Valley where different groups had intermingled as a result of the redistribution of former white-owned land since independence. In other parts of the country, especially in the Kikuyu heartlands, Mr Kibaki's backers have treated Luos with similar harshness.

But it is wrong to paint a picture simply of Kikuyus and the closely related Embu and Meru, who together make up about 28% of Kenyans, pitted against the rest. Many groups have mixed allegiances. Most of the Kamba, Kenya's fifth group, which has been traditionally well-represented in the army, backed a 54-year-old former foreign minister, Kalonzo Musyoka, who won about 9% of the presidential poll and was promptly appointed vice-president by Mr Kibaki. As a result, many Kamba may rally to his cause—and perhaps even join a pro-Kibaki coalition in the (so far unlikely) event of a fresh election. Other tribes, such as the Kisii (6% of the total) have been divided, though most of them voted against Mr Kibaki.

Amid this messy ethnic mayhem, peace talks in Nairobi look unlikely to restore calm any time soon. A former UN secretary-general, Kofi Annan, has managed to bring representatives of Mr Kibaki's government and Mr Odinga's movement to the negotiating table, which is progress of a kind. But the president has so far shown no sign of making serious concessions. Mr Annan has also gathered some of

the country's leading businessmen to stress the damage being done to the economy. Tourism and agriculture have been badly hit (see article). Meanwhile, the human toll is rising. The local Red Cross says that more than 1,000 people have been killed in the past five weeks or so, and more than 300,000 displaced.

Mr Odinga has made no call for secession; he says he is still committed to a united Kenya. There is little evidence so far that he is organising an armed insurrection, though many Kikuyus believe he has been complicit in the attacks against them in Kisumu and elsewhere.

An immediate fear, across the country, is that criminal gangs may take advantage of the mayhem. The government has given orders to police to shoot to kill if chaos on the street begins to spread; many innocents have already been gunned down. So far the armed forces have generally stayed out of the proceedings. If Mr Kibaki were to call them in, the danger of national disintegration might increase.

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Kenya and China

The sound of silence

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The murky role of one of President Mwai Kibaki's closest new allies

IN THE six weeks since Kenya's disputed election, an array of bigwigs, from the UN secretary-general to the chairman of the African Union, have flown into Nairobi to urge Kenya's warring parties to negotiate. But this frenetic diplomacy serves only to amplify the silence coming out of China, which may soon be the only big country left that has omitted to send an envoy, special or otherwise, to see Mwai Kibaki, Kenya's unyielding president.

This is not for lack of interest. In Kenya, as elsewhere in Africa, the Chinese have a large and growing economic stake, which the Kenyan government is keen to emphasise. The Chinese defence minister visited just before the elections to agree to modernise Kenya's armed forces. Hu Jintao, China's president, honoured Kenya with three days of his attention on a whistle-stop tour of Africa in 2006. It is ideology, not indifference, that is keeping the Chinese away from the diplomacy.

China's stance is consistent with its policy of non-interference in other countries' internal affairs. An editorial in Beijing's *People's Daily* on January 14th upset Kenya's opposition by saying that “Western-style democratic theory simply isn't suited to African conditions but rather it carries with it the root of disaster. The elections crisis in Kenya is just one example.”

This sort of non-interference has consequences. With China to fall back on, Mr Kibaki may feel better able to cling on to power and withstand any Western threats to impose sanctions or suspend aid. According to the IMF, China's trade with Kenya was $706m in 2006, a startling 36% up on the year before. Kenya's trade with America, its largest Western partner, was $919m, but down on the previous year; with Britain it was $864m. The Chinese have invested in mining and offshore oil exploration, plus some big infrastructure projects, such as new bypasses around Nairobi.

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Zimbabwe

Simba's roar

Feb 7th 2008 | JOHANNESBURG
From The Economist print edition

President Robert Mugabe faces a serious new opponent

Get article background

THE presidential election scheduled for March 29th may not be the expected shoo-in for Robert Mugabe after all. On February 5th, Simba Makoni, a former finance minister and until this week still a member of the ruling ZANU-PF's politburo, announced he would run for the top job, blaming the “national leadership” for the country's “extreme hardships”. This may be the toughest challenge yet to Mr Mugabe, whom his party endorsed in December despite rising dissatisfaction in ZANU-PF ranks. Mr Makoni's bold move may convince the opposition Movement for Democratic Change (MDC), which has once again failed to heal its own divisions, to join forces to defeat the incumbent.

Mr Makoni, a respected technocrat, has at least a chance. He is untainted by corruption allegations and was considered a reformist in his own party; as finance minister, he clashed with Mr Mugabe over economic policy. His appeal goes beyond ZANU-PF, from which he has now resigned. He will run as an independent.

Mr Makoni may not yet enjoy much grassroots support but he says that his candidacy is backed by some national and local ZANU-PF heavyweights. None has openly joined him yet, but he may get the nod from Solomon Mujuru, a powerful former army chief who is married to the country's vice-president. If Mr Mujuru were to back Mr Makoni, he would deliver big chunks of the ZANU-PF electorate and bring some of the party machinery and security forces onto his side.

Still, defeating the 83-year-old Mr Mugabe will be hard. He has crushed, divided and co-opted opponents since he won power as a liberation hero in the election that heralded independence in 1980.

ZANU-PF and Mr Makoni apart, the official opposition is weaker than ever. The MDC has failed to mend its split. After months of discussions, the two factions' leaders, Morgan Tsvangirai and Arthur Mutambara, agreed on a common platform for the elections and on Mr Tsvangirai as the presidential candidate. But the two sides then fell out over the distribution of seats in Matabeleland, in the west, and now say they will run separately in both presidential and parliamentary polls.

Mr Makoni's move offers new chances to the quarrelling opposition. One or both MDC factions could team up with him; both have welcomed his candidacy. There are rumours that he and Mr Mutambara may link up. But Mr Mugabe's assorted opponents will have to close ranks fast if they are to have a chance of winning on a playing field that is still bound to be tilted steeply in the incumbent's favour.

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Chad

A regime saved, for the moment

Feb 7th 2008 | NAIROBI
From The Economist print edition

For France and the UN, better the devil they know than the rebels they don't

A FEROCIOUS rebel attack this week on Chad's capital, Ndjamena, seems to have been turned back by the country's president, Idriss Déby. The local Red Cross says hundreds of civilians have been killed. Rotting bodies are being gathered from the deserted streets. The city centre has been looted and thousands of Chadians have fled across the Chari river into neighbouring Cameroon.

But it was a close-run thing. Mr Déby was holed up in the presidential palace, rejecting French offers to airlift him out, and was saved only by the determined resistance of his army's elite units. Defiant, the president has dismissed the idea of negotiations with the rebels, who have retreated to positions around the capital. “They don't exist any more,” says a government official. “With whom should we sign a ceasefire?”

Chad is one of Africa's poorest and least stable countries and Mr Déby one of the continent's worst presidents. He has taken advantage of the fighting to arrest the country's peaceful opposition politicians. Human-rights campaigners fear they may be next.

Still, Mr Déby is almost certainly right in saying that the rebellion was organised more in neighbouring Sudan than in Chad. The Sudanese government armed the rebels and sent them on their way. There may also be truth in his claims that Sudanese Antonov bombers strafed the town of Adre in eastern Chad.

Now he is hopeful that France, the former colonial power, will stand by him. This may seem odd. Though Mr Déby was groomed by France and studied at the École Militaire in Paris, he is exactly the sort of African ruler that France's president, Nicolas Sarkozy, wants to distance himself from. Mr Sarkozy says he is opposed to the old French habit of propping up dubious African regimes. “Françafrique”, as the policy was called, was meant to support African development by guaranteeing stability. Instead, it often provided carte blanche for leaders to become dictators and bleed their people dry.

Mr Déby is one such. The World Bank thought it had an agreement with him to spend Chad's new-found oil wealth on education and health. Instead, Mr Déby used a weak parliament to divert money to the military and enrich his narrow tribal elite. He changed the constitution to allow himself a third term in office. Indeed, the last time he was in big trouble, in 2006, the then French president, Jacques Chirac, wasted no time in ordering fighter jets to swoop over a rebel column, deterring an earlier assault on the capital.

So why is Mr Sarkozy backing Mr Déby? Simply because the alternative would be worse. Mr Déby's demise would probably mean a freer hand for Sudan in eastern Chad and the ravaged Sudanese region of Darfur. That, in turn, would worsen the already dire humanitarian situation on the border between the two countries.

Keeping Mr Déby in office, on the other hand, should make it easier for a 3,700-strong European (in essence, French) peacekeeping force to deploy in eastern Chad to prevent the frequent incursion of Sudanese-backed militias, known as the *janjaweed*, where they have been attacking the Darfuri refugees. And besides, Mr Déby had said he will pardon six French aid workers convicted of trying to fly 103 children out of the country.

The Sudanese government may have feared that the EU force would strengthen Darfur's rebels, some of whom are backed by Mr Déby. If so, it may have miscalculated. Mr Sarkozy has hinted that France might use military force against the Chadian rebels, should they attack Ndjamena again. It would not be a Gaullist action of old, for France has already won the approval of the UN Security Council, which worries equally about the humanitarian calamities in Darfur and eastern Chad.

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Economist.com WORLD MIDDLE EAST & AFRICA

The Arab media

How governments handle the news

Feb 7th 2008 | CAIRO
From The Economist print edition

Governments are looking for new ways to suppress news they don't like

PREDICTABILITY is a trait that few would ascribe to the Middle East, yet Arab interior ministers have gathered quietly, every winter for the past 25 years, to talk about how better to secure the regimes they serve. At this year's summit, in Tunis, the security chiefs agreed to toughen rules on publishing, recording or distributing material that might promote terrorism. A worthy goal, surely, except that the region's authorities have a habit of defining as crimes the kind of things their critics would deem legitimate dissent.

Despite the flourishing of alternative media, such as satellite television and internet blogs, that challenge once-impregnable state monopolies on the flow of news, governments keep finding new ways to suppress contrary views. Whereas the dictatorships of old snuffed out opponents or chucked them in jail, today's softer incarnations achieve similar silence by subtler means. Hyper-regulation via catch-all laws, plus financial carrots and sticks, tend to replace cruder direct control.

In draconian Syria, the vague crime of “disseminating false information” carries a stiff jail sentence. But as many journalists in relatively liberal Morocco have discovered, to criticise public officials is to risk libel charges that carry ruinous fines. Jordan, another semi-constitutional monarchy, recently issued a press law that independent-minded journalists suspect will be used against them, stipulating stiff penalties for slander. The regional government of Iraqi Kurdistan, a pro-Western enclave, is working on a similarly restrictive law. In Yemen last year, Abdel Karim Khaiwani, who edits a news website, found himself facing a possible death sentence for allegedly supporting terrorism after reporting on such issues as a bloody tribal rebellion and nepotism in President Ali Abdullah Saleh's government.

In many such cases, the state itself need not dirty its own fingers. Pro-government lawyers in Egypt filed a barrage of private lawsuits last year against editors who had, among other things, rubbished the ruling party and speculated on the state of President Hosni Mubarak's health; four were imprisoned. Plaintiffs in Kuwait, supposedly acting as private citizens, succeeded in winning hefty damages from the al-Jazeera satellite network because it had allegedly insulted their country. In tightly-controlled Tunisia, a journalist who had dared to air widely whispered rumours of corruption among President Ben Ali's relatives was charged with public indecency and insulting a state official after what appeared to be a staged altercation with police. He was sentenced in January to a year behind bars.

Older methods still work, too. According to Reporters Without Borders, a Paris-based lobby, more than 200 media workers have lost their lives in Iraq since 2003. In the same period, prominent journalists in Algeria, Egypt, Iran, Lebanon, Libya and Sudan have been killed or gone missing in suspicious circumstances. In the past two months alone, the authorities in Gaza, Saudi Arabia and Sudan have summarily jailed reporters or internet bloggers.

Non-Arab Iran continues to lead the region in banning newspapers. Under the fundamentalist government of President Mahmoud Ahmadinejad, dozens of reformist publications have had their licences revoked. The most recent victim, a popular women's magazine, was accused of “threatening the psychological security of society” and of having “weakened military and revolutionary institutions”.

In January, after several participants in a call-in television show criticised a recent salary increase for government employees as too small, the Saudi authorities stopped any programme from being beamed live. The kingdom's minister of information then barred journalists from seeing himself questioned in the kingdom's all-appointed proto-parliament, the Shura Council. Saudi Arabia, like Iran, Syria and Tunisia, extensively monitors the internet, blocking tens of thousands of websites, ostensibly to protect public morality. Even Yemen, with its less sophisticated electronic means, has joined in. In recent weeks, half a dozen opposition news sites have suddenly become inaccessible to local users.

With satellite dishes proliferating even in remote villages across the Middle East, television has proved harder to control by such means. Governments have instead put pressure on the states that host stations. A recent rapprochement between Saudi Arabia and Qatar, for instance, has produced a marked toning down of news about the kingdom on al-Jazeera, which is based in Qatar. The mooted new rules on incitement to terrorism may have been partly intended to stop the channel, still by far the most popular across the region, from broadcasting statements by Islamist militants. But the last time al-Jazeera aired a video from al-Qaeda's fugitive leader, Osama bin Laden, Islamist radicals fumed that the footage was so heavily edited that it completely distorted the message.

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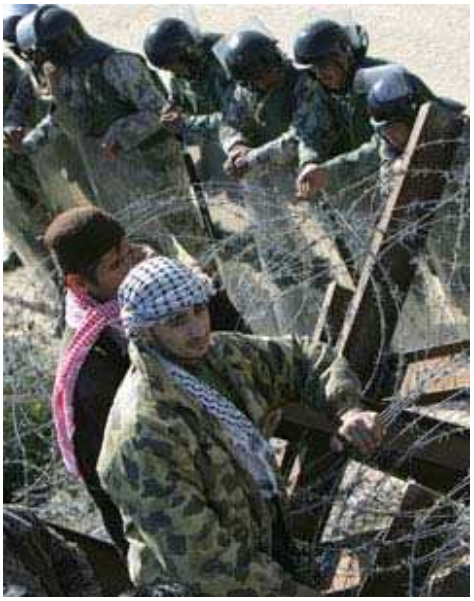
The Gaza Strip

Back to abnormal

Feb 7th 2008 | CAIRO
From The Economist print edition

Who will now control the border?

AFP



The Egyptians pen them in again

TWO weeks after the Islamists of Hamas toppled the border fence, letting hundreds of thousands of inhabitants of the Gaza Strip spill briefly into Egypt, the situation appears to have returned to what counts as normal. But normal is not good.

Gaza's 1.5m people remain besieged, generally unable to leave, and with imports restricted to minimal amounts of staple food and fuel. The Hamas militants who have run Gaza since ousting their secular-minded Fatah rivals last summer have continued to fire rockets and mortars into Israeli towns and farms.

As a possible harbinger of more violence to come, Hamas has also taken again to sending suicide bombers into Israel. In the first such Hamas operation since blowing up two buses in Beersheba in 2004, a pair of suicide bombers, reportedly former inmates of Israeli prisons from Hebron in the West Bank, killed a 73-year-old woman in the southern Israeli town of Dimona on February 4th. Israel responded the same day with new missile attacks, killing nine armed Hamas men. An Israeli minister urged that Israel should also resume its tactic of assassinating Hamas political leaders, not just fighters.

Now, a fortnight since Hamas forces engineered the Gaza break-out, the Egyptian authorities have resealed and reinforced the border, some 12km (7.5 miles) long, with thick coils of razor wire and hundreds of extra troops; they say they will resist another attempt to knock a hole in it.

Their will was tested this week, when Egyptian security forces clashed with stone-throwing Palestinians. Some 59 were injured and one was killed. But the border stayed shut, except for Egyptians returning home and Palestinians, who have been hounded across the northern Sinai desert, being ejected from Egypt. Egyptian officials also showed their determination to seal the fence with an information campaign meant to lessen public sympathy with the Palestinians, alleging, among other things, that Gazans had flooded Egypt with counterfeit dollars, that Palestinian terrorist teams had infiltrated the country, and that Egyptian Islamists had flocked into Gaza.

Meanwhile, diplomacy grinds on. After inconclusive talks in Cairo between Egypt, Hamas and the Fatah-led Palestinian Authority that holds sway in the West Bank, Egyptian officials suggested that the ball was now in Hamas's court. The only deal that Egypt, the Palestinian Authority and possibly Israel would accept was one to reinstate the Palestinian Authority's control of the border under the supervision of European monitors and under the gaze of remote-operated Israeli cameras, along the lines of the same such agreement in 2005 but with an added role for Hamas. But, while hoping to capitalise on publicity from the break-out to bolster its legitimacy, Hamas has dismissed such a deal and says it is considering its options.

One mooted idea could involve Hamas giving way over the border issue in return for a prisoner swap whereby Israel would free many of the 12,000-odd Palestinians it holds in exchange for an Israeli soldier abducted from inside Israel in June 2006. For the time being, however, a stalemate prevails, with Gazans as glum as before.

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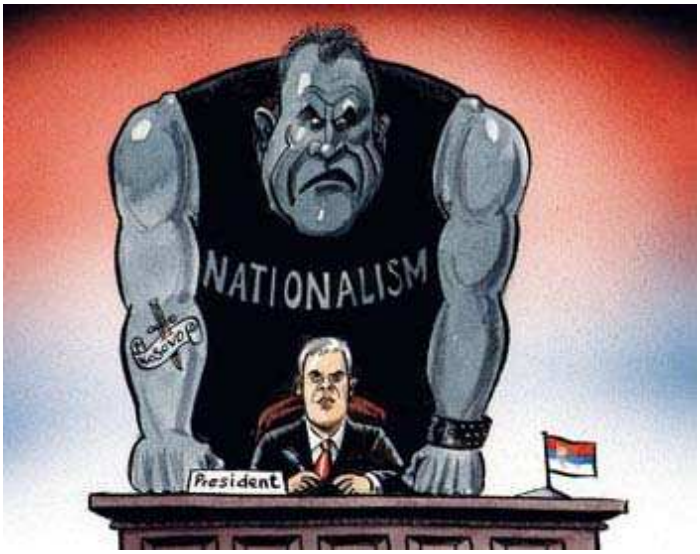
Serbia

The spectre over Belgrade

Feb 7th 2008 | BELGRADE
From The Economist print edition

The right man has won Serbia's presidency, but difficult times still lie ahead

Illustration by Peter Schrank



Get article background

THE Belgrade stock exchange said it all. On February 4th, the day after Boris Tadic was re-elected as Serbia's president, its index reversed months of decline and shot up spectacularly. The next day, as it became clear that political turmoil was looming and the government might collapse, it shed most of its gains (admittedly, world stockmarkets also dived). More losses may follow.

The election run-off was tight. Mr Tadic is a pro-Western liberal who wants his country to join the European Union as soon as it can, so as to catch up with its neighbours. Bulgaria and Romania are already members, Croatia is well advanced in talks with the EU and Macedonia may begin negotiations later this year. Mr Tadic's opponent was Tomislav Nikolic, leader of the Serbian Radical Party. Its founder and nominal leader is Vojislav Seselj, who is on trial before The Hague war-crimes tribunal. Yet Mr Nikolic won more than 47% of the vote on February 3rd, with Mr Tadic winning just over 50%.

The election marked a big shift in Serbian politics. In the past support for the Radicals has been broadly steady. But by giving them a lot more votes this time, many Serbs have shown that they see the party as no longer the one of Mr Seselj and the wartime era, when it sent out murderous militias to fight for a greater Serbia. More than seven years after the fall of Slobodan Milosevic, voters were opting for change, in part because they are so angry at the way in which people with political connections have become rich.

And then there is Kosovo. Nominally part of Serbia, Kosovo is preparing to declare its independence within a few weeks. Some 90% of its 2m people are ethnic Albanians who have long wanted to break the lingering bonds with Serbia. Since the war in 1999 Kosovo has come under the jurisdiction of the United Nations. A large part of the planning for the future state involves shifting the task of overseeing the province from the United Nations to the EU. On February 4th the EU said that it was ready to deploy a huge mission in Kosovo as soon as foreign ministers give the formal go-ahead, which will probably be on February 18th.

The biggest loser in Serbia's presidential election was not one of the candidates but Vojislav Kostunica, the prime minister. He is in coalition with Mr Tadic's party but refused to support him for the presidency. All Serbian leaders, including Mr Tadic, oppose Kosovo's independence. But Mr Kostunica adds that, if the planned EU mission is deployed to Kosovo, Serbia should abandon its attempts to join the EU. Mr Tadic

and his party say that, whatever happens over Kosovo, Serbia has no choice but to continue towards the EU.

By rights, Serbia should have signed a stabilisation and association agreement with the EU by now. This is the first step on the ladder towards membership. But in late January the agreement was blocked by the Dutch foreign minister, who argued that Serbia had not done enough to pursue fugitives from The Hague tribunal (especially Ratko Mladic, the Bosnian Serb wartime general). Instead, Serbia was offered an interim agreement amounting to little more than a statement of good intent.

This deal was meant to be signed on February 7th. But it was put off after Mr Kostunica denounced it as a trap and said that Serbia would never sign. The EU reacted sharply, deploring the obstruction of “certain politicians in Belgrade”. Bitter at the way Mr Tadic won his election, Mr Kostunica wants to see the president burn, says Braca Grubacic, a political analyst. “Kostunica is trying to push Tadic to damage him,” he argues.

Where does this leave the country? Mr Tadic may well buckle to the prime minister, as he has done before, despite moaning about blackmail. But the government could also break apart. That would mean either that the Radicals join a new government, which is unlikely, or that a fresh general election is held—in which Mr Kostunica, whose party is trailing in opinion polls, could be consigned to history. One possible date for an election is May 11th, when local elections are already planned.

Even if the government survives this crisis, more are in the offing. Once Kosovo declares independence and the EU mission is up and running, Brussels will make good neighbourly relations a condition for Serbia's own hopes. The Serbs will not be required to recognise the new state immediately; but if they are seen to be working to undermine it at every stage, and thus jeopardising the success of the EU mission, retribution is sure to follow.

The best motto for Balkan politics has always been “expect the unexpected.” Right on cue a new scenario is being mooted in Belgrade. This is that Mr Tadic and Mr Nikolic might work towards a compromise. Mr Nikolic loathes Mr Kostunica, so it was striking that after the election the two candidates spoke so respectfully about each other. A deal between them, which would stop short of a formal coalition, would give the Radicals a chance to follow the example of the ruling party in Croatia, which has graduated from hard-core nationalism to political respectability, but that would require internal purges. It could also give Mr Tadic's party the chance to sever the link between Kosovo's future and Serbia's desire to join the EU.

Mr Tadic is said to favour such a compromise, which would formalise the political change that became clear in the presidential poll. The result could be a consolidation of voters behind two big parties, with just a sprinkling of others, including parties for minorities such as Hungarians and Bosniaks (Muslims) in the Sandzak region, who were key backers of Mr Tadic. If this is how things go, Mr Kostunica's days as prime minister would seem to be numbered. But he is too shrewd an operator to be counted out yet.

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Montenegro's leadership

A Balkan survivor

Feb 7th 2008 | BELGRADE
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The Montenegrin strongman comes back

AP

Djukanovic surveys his kingdom

IN 2006 Milo Djukanovic, who had been either prime minister or president of Montenegro ever since 1991, said that he was tired of politics and wanted to concentrate on business. He had just led his country to independence and his party to victory in a general election. Yet nobody believed his first assertion, not least because he planned to stay on as party leader.

Now Mr Djukanovic is back. On February 15th, his 46th birthday, he seems certain to win parliamentary endorsement as prime minister. His return follows the resignation of Zeljko Sturanovic, who is seriously ill. “This is not a surprise,” scoffs Srdjan Darmanovic, at the politics department of Podgorica University. “They have no better candidate, his retirement was unnatural and this was an experiment which failed.”

The experiment was to try to lead the country from behind the scenes. Mr Sturanovic was widely seen as a puppet. The Montenegrin president, Filip Vujanovic, is extremely close to Mr Djukanovic. In two months' time Montenegro will hold a presidential election. Anyone who votes for Mr Vujanovic will, according to Mr Darmanovic, “really be voting for Djukanovic”.

Mr Djukanovic is a Balkan phenomenon. He began his career as a young protégé of Serbia's Slobodan Milosevic. He led his people to war when Montenegrins attacked Dubrovnik in Croatia. But he dumped Mr Milosevic at an opportune moment, became a darling of the West and secured his country's independence from Serbia. Throughout he has been dogged by Italian prosecutors, who have made allegations about cigarette smuggling and money laundering.

Since independence almost two years ago Montenegro has been stable, the economy has grown (though workers are now on strike at the biggest factory) and the country has moved towards Europe. Yet Momcilo Radulovic, a political analyst, says many Montenegrins are fed up with the way in which people close to power have become fabulously rich. The ruling party is nervous, he says: “despite having everything under its control”, it fears it might lose the presidential election. No doubt Mr Djukanovic will still be around.

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Italy's election

They're off, again

Feb 7th 2008 | ROME
From The Economist print edition

An election is called for April 13th-14th

Get article background

IN ITALIAN politics, things happen with either bewildering suddenness or excruciating slowness. On February 6th, 13 days after the fall of Romano Prodi's centre-left government, President Giorgio Napolitano dissolved parliament. But the election will not be held until mid-April.

The president said he regretted sending voters to the polls without a reform of the electoral law, devised by Silvio Berlusconi's centre-right government in 2005. But the Senate speaker, Franco Marini, failed to garner cross-party support for an interim government to change it, because Mr Berlusconi refused to co-operate. Being way ahead in the opinion polls, he is confident of an early return to power.

The dissolution of parliament put an end to the second-briefest legislature in the 62-year history of the republic, something Mr Napolitano termed an “anomaly”. Italians have often argued that the change to a modified “first-past-the-post” system in 1993 ushered in a “second republic” of longer governments and greater stability. But the 2005 reform, which imposed an eccentric form of proportional representation, may have created a “third republic” that is more unstable than the first. It has put more parties in parliament and makes for a perilously fragile majority in the Senate.

If he is to avoid the fate of Mr Prodi, Italy's next leader needs to win the popular vote by a big margin. Such a landslide is scarcely guaranteed. Mr Berlusconi's main opponent, Walter Veltroni, will lead a new, broad party of the centre-left; but Mr Berlusconi will run at the head of his familiar, habitually quarrelsome, four-party coalition. Mr Veltroni is 52; his opponent is a septuagenarian with a pacemaker. The parliamentary election is likely to be held on the same day as local elections, a combination that usually favours the left.

All this may explain some strangely conciliatory noises now coming from the Berlusconi camp. For the former prime minister may need help from a section of the centre-left. There is talk of offering the opposition a parliamentary speakership or the chairs of some parliamentary committees. The Berlusconi family newspaper, *Il Giornale*, has even floated the idea of a German-style “grand coalition”. But this was stamped on by both Mr Berlusconi and his chief rival. They will have enough difficulty in the coming weeks persuading a cynical electorate that voting for either side can make any difference.

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Islam in the Netherlands

Wild thing

Feb 7th 2008 | AMSTERDAM
From The Economist print edition

The Netherlands frets about the likely impact of a new anti-Islam film

AFP

Wilders ponders the Koran

THE Netherlands is going through a “considerable crisis”, says the prime minister. The Iranians are musing publicly about cutting diplomatic ties. The grand mufti of Syria has issued grave warnings of war and bloodshed. Dutch citizens living in Muslim countries have been asked to report any worrying incidents.

The one thing missing is the cause of the fuss: an anti-Islamic film neither made nor shown by a Dutch member of parliament, Geert Wilders. In November Mr Wilders revealed his plan to air on television an exposé of the wickedness of the Koran, which he calls an Islamic “Mein Kampf”. The film is said to include shots of him desecrating the Koran. Dutch state television appears reluctant to show it, so Mr Wilders now talks of a private broadcaster, or using the internet. But the mere talk of his film has been enough to ignite a renewed debate about Islam in Europe and the limits on free speech.

The Dutch have reason to worry. Two years ago the publication of Muhammad cartoons in a Danish newspaper triggered anti-Danish riots around the Muslim world. Two years before that a film about Islam, “Submission”, was shown on Dutch television; soon afterwards its director, Theo van Gogh, was butchered in an Amsterdam street by a radical Dutch Islamist, who also threatened the screenplay writer, Ayaan Hirsi Ali (now living in America). Mr Wilders's film could, some fear, have similarly violent consequences.

Mr Wilders's anti-immigrant party has nine seats in parliament, too few to affect the government's fairly tolerant policy towards the country's Muslim minority. But he has jabbed his finger into several sore spots. He has publicly questioned the loyalty of two cabinet members with dual nationality (ie, Turkish and Moroccan as well as Dutch). He called a third minister “barking mad” because of her liberal integration policies. And he has demanded a ban on immigration from Muslim countries.

Mr Wilders might seem just a provocateur. But his power lies in the rhetoric that he uses to contrast such liberal notions as gay rights and female emancipation with the image of an intolerant and anti-modern Islam, says Paul Schnabel, head of a Dutch government social-science institute. Polls show that the Dutch rate freedom of speech as one of their most important values—and many see Mr Wilders as its champion. He is a “modern conservative”, argues Mr Schnabel, able convincingly to demand of immigrants that they should show full loyalty to Dutch values.

As important as Mr Wilders's political talent is the absence of powerful countervailing voices speaking up for inclusiveness, pluralism and a more respectful public debate. Many Muslim immigrants suffer from relative poverty, from high levels of crime and from social segregation. The government focuses on policies to improve the education of second-generation Muslims, get more of them to work and find ways to reduce crime. The justice minister, Ernst Hirsch Ballin, insists that such measures offer the best hope of improving the sour relationship between Muslims and native Dutch folk. But the technospeak often used to describe them hardly matches the fiery one-liners launched from the right.

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France's government

The unpopular president

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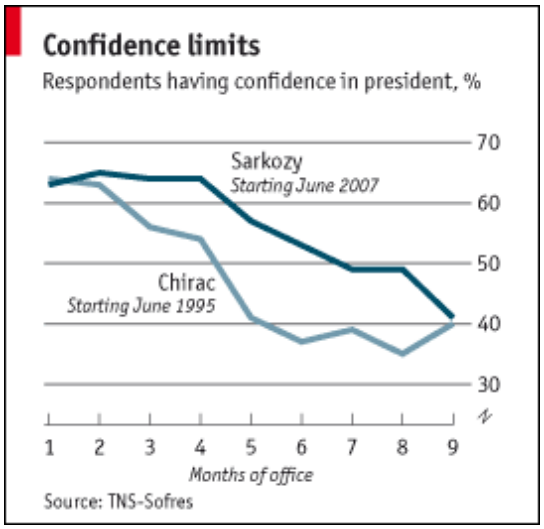
Nicolas Sarkozy may be newly wed but he is increasingly unloved

OUT went the Ray-Ban sunglasses, the exotic locations, the friends' private jets. In came the hard hats, workers' overalls and gritty factories. Nicolas Sarkozy carried out a swift scene change this week, visiting two French factories in as many days, in an effort to appear to be more in touch with ordinary life—and to rescue his waning popularity. He has reason to be concerned. In the past month alone, his approval rating has tumbled by 13 points, according to one pollster. The only other modern French president to have lost popularity so quickly was Mr Sarkozy's predecessor, Jacques Chirac.

It was not supposed to be like this. Mr Sarkozy ran for election last May on a promise to restore faith in politics, to rebuild French confidence and to get France back on track. Instead, nearly nine months into his presidency, a majority (55%) of the French have "a negative opinion" of him, according to LH2, a polling agency. By comparison, it took 19 months for François Mitterrand's popularity to sink below 50%, says TNS-Sofres, a pollster. Only Mr Chirac's decline has matched Mr Sarkozy's; by February 1996, nine months into his presidency, his rating was similar to Mr Sarkozy's today (see chart).



Three things seem to lie behind this disaffection. First, and least incriminating for Mr Sarkozy, the credit crunch and the global economic slowdown have undermined his efforts to boost growth and incomes. Last summer his government passed a massive €11 billion ($15 billion) of tax cuts. These were designed to encourage the French to work more (overtime pay, for example, was exempted from tax and social charges) and spend more (tax breaks were handed out for property purchases). But a deteriorating economy, plus rising food and energy prices, have meant that the results have not been felt in people's pockets. Opinion polls suggest that "purchasing power" is the voters' biggest worry.

Second is a creeping suspicion that Mr Sarkozy is not sticking to his campaign promises. This cuts across all categories of voter. When he was running for office, Mr Sarkozy was quick to identify purchasing power as a popular concern, and to pledge to do something about it. Yet working-class voters are dismayed that he now says the public finances are stretched and that he cannot do anything on wages. Liberal-minded business types are disappointed for different reasons. They consider that Mr Sarkozy's attempts at reform—of pensions, universities or the labour market—only ever seem to go half-way, and that he has barely tried to impose tighter control on public spending.

The third source of dissatisfaction is what might be called the Sarko show. As a former mayor of Neuilly, a swanky Paris suburb favoured by celebrities, Mr Sarkozy's taste for showbiz friends was nothing new. But his much-publicised romance with Carla Bruni, an Italian former supermodel and singer, whom he married on February 2nd, just over three months after he divorced his second wife, has nonetheless dismayed voters. They like the idea of a modern energetic president, but not one who jets off on holiday as they struggle to make ends meet, having awarded himself a big pay rise. To many, "Président bling-bling", as *Libération* has dubbed him, seems altogether too busy looking after himself when he should be looking after them. Mr Sarkozy's claim to have the common touch is in tatters. It cannot be a coincidence that in a popularity poll this week for *Paris-Match*, his discreet, plodding prime minister, François Fillon, comes 11 points ahead of his boss.

Can Mr Sarkozy regain voters' affection? His team insists that there is nothing surprising about his low ratings, given the weight of expectations and the time it takes for reforms to pay off. One polling boss argues that it is quite possible to govern effectively so long as one's popularity does not drop below 40%.

Mr Sarkozy's visits to the factory floors are a bid to ensure this does not happen. Ministers also claim that, far from braking the momentum of reform, poor poll ratings will encourage him to press ahead even faster.

The trouble is that, given the economic climate, it will be difficult to find quick fixes for popular anxiety about wages and prices—or, at least, ones that do not store up fresh problems for the future. As it is, the saga at Société Générale has deepened popular mistrust of the market and intensified pressure for protection. Moreover, French voters go to the polls next month to elect mayors in 36,000 municipalities. It looks increasingly likely that there will be a sharp swing to the left, and that Paris will be held by the incumbent Socialist mayor, Bertrand Delanoë.

In the short run, Mr Sarkozy is likely to be tempted more by populist gestures, such as his promise this week to boost minimum pensions by 25% over five years, than by further full-blooded reform. He is sitting on a report prepared by Jacques Attali, a Socialist grandee, which advocates a liberal shake-up of such highly regulated sectors as taxis, pharmacies and shops. Given that these businesses touch so many of the voters who swept Mr Sarkozy to power last year, he is unlikely to want to deprive them of their perks and protection ahead of the local elections. Already, taxi drivers have gone on strike in Paris and elsewhere as a pre-emptive move against deregulation. After the elections, Mr Sarkozy will have no political excuse not to proceed with controversial reforms—save that he will not want to see his personal standing decline even further.

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Political wives

For better, for worse

Feb 7th 2008 | PARIS
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The perils of the career wife

Reuters

Nicolas I and Carla de Medici

THE conflict of interest presented by working spouses of political leaders can be awkward. Cherie Blair, wife of a former British prime minister, practised as a barrister, occasionally taking on cases against the British government. Danielle Mitterrand, wife of a late French president, would embarrass his diplomats with her embrace of Fidel Castro. But the potential conflicts raised by France's new first lady, Carla Bruni, who married President Nicolas Sarkozy on February 2nd, are of an altogether different flavour.

The president's wife, an Italian supermodel-turned-singer, is currently starring in a classy television advertisement for Lancia, an Italian carmaker. In the ad, she arrives in evening dress at an Oscar-style event, stepping out of her Lancia Musa on to the red carpet, and symbolically torching an American stretch limousine with her finger as she breezes past. A second television ad, in which she buries the limousine carcass, is due to air on French TV in March.

These spots were filmed before Ms Bruni's relationship with the president began. But her commercial interests go beyond the odd product endorsement. She is a singer-songwriter, working on a new album, at a time when the French government is considering how to compensate musicians for illegal internet downloading. She is also a one-time supermodel whose image has a high market value. This week Ryanair, a low-cost airline, was ordered by a French court to pay her €60,000 ($85,000) in damages—which she donated to charity—for using her face (and that of her new husband) in an unauthorised newspaper advert. The court awarded Mr Sarkozy only one euro at his request.

There is also the prickly matter of national interest, in a country that has become inordinately fond of “economic patriotism”. Although Ms Bruni has lived in France since childhood, she is proud to call herself Italian. “I'm not French at all,” she told the *Daily Mail*, a British tabloid, adding that “French people are in a bad mood” and “always negative”. During the opening ceremony for the 2006 Turin winter Olympics, she carried the Italian flag. This makes her the most famous Italian spouse of a French leader since Catherine de Medici married Henri II. By coincidence, both France's president and its prime minister, François Fillon, now have foreign wives (Penelope Fillon is Welsh).

How far does marital loyalty go? Mr Sarkozy has made plain that he wants to keep non-French hands off a troubled bank, Société Générale. Could Italy find itself newly favoured? Unlikely. When it comes to affairs of state, it is hard to imagine even Mr Sarkozy letting affairs of the heart triumph over his Gaullist-style defence of French business.

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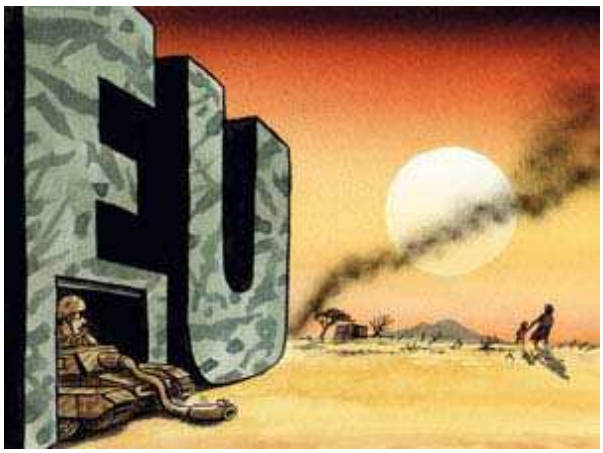
Charlemagne

Colonial baggage

Feb 7th 2008
From The Economist print edition

The lessons of Europe's muddle over its military mission to Chad

Illustration by Peter Schrank



AN “EMBARRASSMENT”, says a diplomat of the delays over a European Union peacekeeping mission to Chad. It is eight months since France's foreign minister, Bernard Kouchner, said there was an urgent need to stabilise Chad's border with Sudan, and to protect refugees from Darfur. Since then EU members have squabbled over who should provide troops, kit and helicopters—and who should pay the bills. Military chiefs proved “very cautious about casualties”, comments the diplomat.

This week deployment of the 3,700-strong EUFOR was postponed yet again, because of rebel attacks on Chad's capital (see article). Proof that Europe is a “paper tiger”, jeered one blogger with a Eurosceptic following: not so much a soft power as a “gone-soft power”. Time to call in the United Nations, declared a former British army brigadier who sits in the European Parliament. EUFOR was a “ramshackle” enterprise whose main aim was merely “flying the EU flag”.

It all sounds rather familiar. The EU proclaims that it is about to do something ambitious and new in the field of defence and security—and then proves, once again, that European governments are better at discretion than valour. The quarrels are all the worse, argued one European minister recently, because EUFOR is a textbook case of the type of mission that the EU wants to make its speciality: “It is what we say we are there for.”

Defenders of the mission stick to the textbook. Only Europe can help in eastern Chad, they say: in such a jumpy part of the world, an American-led operation would be counterproductive. The UN is bad at fast-moving crises and standing up to strongmen. It does not help that Libya, Chad's neighbour, opposed talk of a UN force near the Sudanese border, apparently fearing a ploy to launch a UN action in Darfur itself. Finally, you can forget about France, the former colonial power in Chad (and arch-meddler in its affairs, with over 1,000 troops stationed there) doing it alone. A French national force, flying the tricolor, could not credibly pull off a mission sold as a humanitarian intervention, divorced from old-fashioned national interests.

So why has EUFOR taken so long? There are practical reasons. Eastern Chad is a tough place. All over the world, troops and military kit are in short supply. European countries that take defence seriously are busy elsewhere (Britain is sending no troops to this mission, Germany is sending lots of money). Revealingly, if you ask diplomats why helicopters are so hard to find for Chad, you tend to get the same answer: if any were offered, the Americans would quickly be on the line demanding the same machines for more urgent business in Afghanistan.

But the other reason is philosophical. The Chad mission has proved a hard sell not because it is too

ambitiously European, but because so many EU members suspect it of being a wheeze for advancing French interests. France's swaggering presence in central Africa is a good riposte to the sneering about Europe “gone soft” (try calling a French marine a paper tiger). When columns of rebels attacked Chad's capital, the fear in Brussels was not that French troops might be overwhelmed, but that France would intervene so decisively on behalf of the sitting president, Idriss Déby, as to wreck EUFOR's claims to neutrality.

French history in Africa weighs heavy: the long years of propping up or toppling African despots; all those spooks, arms dealers, secret presidential envoys and murky business deals. There was a “lot of scepticism” when France began pushing the case for a European mission in Chad, admits one diplomat. The humanitarian aim seemed to make sense when French colleagues explained it, but plenty of listeners feared it might really be “all about oil contracts”. Such scepticism made it far harder to secure non-French troops for the mission. Well over half of EUFOR's soldiers will be French, albeit sporting EU shoulder patches and taking orders from an Irish general, Pat Nash. The general recently told an Irish newspaper that his first challenge would be to “disengage” the 14-country mission from the French national presence in Chad. There would be much flying of European flags, he promised.

The lure of neo-colonialism

EU officials like to talk of European defence and security policy as being something new and “post-modern”, moving beyond tired old ideas of sovereignty and state interests. At the same time, the union includes several former colonial powers. Public opinion may be an increasingly important driver of European actions (“something must be done for Darfur”). But the real force behind many EU overseas projects is often an ex-colonial power, trying to help a former possession.

That is not always a bad thing. Former colonial powers have respectable reasons to be involved: diaspora populations, commercial ties or linguistic links—or simply their knowledge of faraway places. Nobody minds this: in EU meetings, British ministers often lead discussions on Pakistan, say, whereas Belgium is listened to over Congo. Yet historical ties can lead to a paradox. France pushed for an EU mission in Chad precisely to avoid accusations that it was pursuing old-style national interests. But in the end nobody else cared as much about the mission's success—which is why the French are sending the lion's share of the troops.

As one diplomat puts it, it is easier to find forces for a new-fangled EU mission “when old-fashioned national interests are at stake, rather than something purer.” Humanitarian intervention is all very well, says another, but “you need good reasons to go through the media scrutiny and the body bags coming home.” Yet Europe's anxieties over its defence policy will do little for the refugees in eastern Chad. The latest hope is that EUFOR may be fully deployed by the end of March, but even that date may slip. At that point, embarrassment might no longer be enough: it could be time for shame.

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Italy's election

They're off, again

Feb 7th 2008 | ROME
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An election is called for April 13th-14th

Get article background

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If he is to avoid the fate of Mr Prodi, Italy's next leader needs to win the popular vote by a big margin. Such a landslide is scarcely guaranteed. Mr Berlusconi's main opponent, Walter Veltroni, will lead a new, broad party of the centre-left; but Mr Berlusconi will run at the head of his familiar, habitually quarrelsome, four-party coalition. Mr Veltroni is 52; his opponent is a septuagenarian with a pacemaker. The parliamentary election is likely to be held on the same day as local elections, a combination that usually favours the left.

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British films

A fistful of sterling

Feb 7th 2008
From The Economist print edition

Hollywood's startlingly British blockbusters

AMID the flood of delicately-bared shoulders and exquisitely-cut suits that will swamp the red carpet at Britain's BAFTA film awards on February 10th will be a smattering of people less well-dressed and not nearly as photogenic as the stars and directors being honoured. The apparatchiks who finance and promote Britain's cosseted film industry will, however, be every bit as self-congratulatory. Several British films were hits at the box office last year and are set to sweep up awards on both sides of the Atlantic.

Yet behind the scenes is a deep sense of disquiet as to just how British some of these blockbusters are. Among productions nominated for best British film—"Atonement", for instance, and "This is England"—is "The Bourne Ultimatum". It is made by Universal, an American studio; the cast is American; and the film could well have come straight out of Hollywood.

Reuters

Much to atone for

Such labelling is no mere curiosity, for public subsidies are ladled out to producers who can convince the government that their films are "culturally British". A tax credit came into force last year with the aim of fostering an industry that expresses British culture and national identity. It allows film-makers to claim tax rebates worth as much as 16% of the cost of big productions and 20% of smaller ones.

Oxford Economics, a consultancy, reckons that the tax breaks are crucial to the success of a business that employs some 33,500 people in Britain and contributes more than £4 billion ($3.8 billion) a year to the economy. Were they to be abolished, film production in Britain would shrink drastically, the economists say in a report paid for by the state-funded Film Council.

The more generous tax credit that the current one replaced cost the public purse almost £500m a year; the Treasury reckons the newer version will divert a more modest £120m a year, an estimate that some think low. Film-makers also get direct subsidies from the government and National Lottery of about £55m a year for worthy aims such as developing talent and fostering public appreciation of film.

Oddly, though, the main beneficiaries of Britain's tax hand-outs seem to be big American studios. This is because the tax breaks make it some 23% cheaper to make a movie in Britain than in America, according to Oxford Economics. That price differential attracts big studios that are shopping around for the cheapest place to film. But it does nothing to reduce the risks that the movie will be a box-office dud. That is a likelier outcome for British studios than for American ones because Britain's domestic market is much smaller and Americans' appetite for foreign films is limited.

Nor do the subsidies do much to promote British culture. It is too easy to pass the test that determines whether a film is sufficiently British to be worthy of state support. Because the criteria include where a film is set and the nationality of its main characters, actors and scriptwriters, film-makers can easily qualify by adding a few minor details, such as shoot-outs in Waterloo station and the assassination in the first few minutes of a British journalist (both features of "The Bourne Ultimatum"). Even these literary touches may be unnecessary: films such as "Dark Knight", a Batman movie set in mythical Gotham City, also qualify for subsidy because chunks are filmed in Britain and they employ local people in important positions.

Such fretting is not new. When the country first passed laws supporting film-making in 1927, it forced cinemas to show a minimum quota of British films, arguing that they needed special protection. Little seems to have changed since then.

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Privacy and politicians

Bugbears all round

Feb 7th 2008
From The Economist print edition

Britain's web of surveillance ensnares an MP

BRITONS who believe they are unduly snooped on seldom want for proof: CCTV cameras and DNA databases perturb many in a country famous for its attachment to privacy. Further cause for concern emerged on February 3rd, when it was revealed that conversations between Sadiq Khan, a Labour MP, and Babar Ahmad, his constituent and long-time friend, had been bugged by counter-terrorism officers. The encounters took place in 2005 and 2006 in a prison in Milton Keynes, just north of London, where Mr Ahmad is awaiting deportation to America to face charges of raising money for nasty causes by running terrorist-friendly websites.

Under a convention established in 1966 by Harold Wilson, the prime minister of the day, MPs are exempt from some types of bugging, which Gordon Brown, the prime minister, recently defined to include any interception requiring the approval of a secretary of state. Though it is unclear whether the electronic eavesdropping on Mr Khan technically constituted interception, thus breaching the convention, many parliamentarians are alarmed. Mr Ahmad, not Mr Khan, was apparently the target of the bug, but the officer who carried out the operation says he went ahead with it reluctantly at the behest of the Metropolitan Police. Sir Christopher Rose, the chief surveillance monitor, has been asked by the justice secretary, Jack Straw, to investigate.

Yet many outside Westminster are equally indignant that MPs, deeply resented after a flurry of financial scandals, are afforded this privilege in the first place. Sir Paul Kennedy, a senior judge appointed by the government to keep an eye on the practice of intercepting communications, calls the doctrine “totally indefensible”.

Also troubling was the news that officials in the Ministry of Justice knew of the bugging in December but did not tell their boss. Some Tories (whose home-affairs spokesman, David Davis, claims to have warned Mr Brown, also in December, of a violation of the Wilson doctrine, though without naming Mr Khan) question Mr Straw's grip on his department.

Mr Khan's case fuels a wider concern about the level of surveillance in “Big Brother Britain”. Hundreds of public bodies, including local councils, can request communications data, including when and to whom e-mails are sent and phone calls made. Each body has its requests considered internally, subject to a code of practice and external oversight by Sir Paul. More than 250,000 applications were made in the last nine months of 2006, most of which were granted. And national security often has little to do with it—typical reasons for requests include catching benefit cheats and even lowly fly-tippers.

Privacy International, an independent monitor, says Britain is the worst country in the European Union for respecting privacy, ranking it alongside Russia and Singapore internationally. It scores especially badly on intercepting communications, hanging on to data thus obtained and giving access to them. Nick Clegg, the Liberal Democrat leader, accuses the government of presiding over a “surveillance state”.

Mr Khan's case coincides with the release of an independent review which argues that intercept evidence should be admissible in court in cases where national security is involved. Gordon Brown agrees. In a country that has suffered terrorist attack by some of its own citizens, surveillance for the sake of saving lives is still relatively uncontroversial. Britons' tolerance of the other myriad intrusions into their privacy may prove less enduring.

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Interest rates

Bankwatch

Feb 7th 2008
From The Economist print edition

Why the Bank of England is moving cautiously to stave off a downturn

THE cast of “Bankwatch” may be less easy on the eye than that of “Baywatch”, but the interest among its City viewers is intense. Can the Bank of England's intrepid lifeguards rescue the economy from the financial storm that broke six months ago?

The central bank's monetary-policy committee (MPC) took its time last year, flinging its first lifebuoy into the water in December when the base rate fell from 5.75%—its level since July—to 5.5%. On February 7th the MPC threw out another lifeline by lowering the rate to 5.25%. America's hyperactive central bank, by contrast, has brought down its main interest rate from 5.25% last August to 3.0%.

More British lifebuoys will be needed as trading businesses feel the chill in the American market, which accounts for a sixth of Britain's exports. The euro area will also slow, tempering demand in the market that purchases almost a half. The effects will be mutually reinforcing, since Britain is also the euro area's biggest market (followed closely by America), buying 16% of the goods and 24% of the services the block exported in 2006, according to Eurostat. Sterling's recent depreciation (see chart) will help British exports, but it will take time for this stimulus to offset the drag from a slowing European economy.

Despite the darkening outlook, the MPC will continue to move more cautiously than rate-setters at America's Federal Reserve, for three reasons. First, recent British growth has been relatively strong. Although the economy weakened in the last three months of 2007, it still grew at a respectable annual rate of 2.4%, compared with America's dismal 0.6%. Second, the housing market has only recently started to keel over whereas America's capsized over a year ago. Third and most important, the Bank of England is more worried about inflation than the Fed appears to be.

Unlike America's central bank, which is mandated to achieve full employment as well as stable prices, the Bank of England must concentrate on hitting the government's inflation target of 2.0% a year. Inflation is set to rise again: energy bills are increasing and import prices will be pushed up by the fall in the pound. As a result, consumer-price inflation, now running at 2.1% a year, will head up again in the next few months. If it exceeds 3.0%, Mervyn King, the bank's governor, must write to the chancellor of the exchequer explaining the overshoot—uncomfortably soon after his first public letter last April.

The MPC is particularly concerned that people are starting to expect higher inflation. According to a recent poll by YouGov for Citigroup, the median expectation is that prices will rise by 3.3% over the next 12 months, up from 2.7% in December. Confidence in price stability has been undermined by the gap between the consumer-price measure, used for the inflation target since the end of 2003, and the longer-established, broader retail-price (RPI) index, which shows prices rising at 4.0%.

The MPC's tricky task is to convince people that it will keep a lid on inflation even though it is relaxing monetary policy to prevent a sharp downturn. This helps to explain why it has been slower than the Fed to bring down rates and has cut them in bite-sized rather than mouth-cramming chunks. The more successful the bank is in taming inflationary expectations, the readier it will be to make further rate cuts to rescue a floundering economy.

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Family doctors

Kill or cure

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From The Economist print edition

Relations with the government grow more fractious

"I STUFFED their mouths with gold": that is how Aneurin Bevan, the chief architect of the National Health Service, recalled the concessions he made to hospital consultants to end their opposition to the creation of the NHS in 1948. They got generous pay rises, juicy pensions and the right to lucrative private practices on the side; the profession stayed self-regulated and family doctors remained independent businessmen, not state employees. Government and doctors have squabbled like a fractious couple ever since, with insults and bribes and periodic threats to leave.

There was a similar stuffing in 2004, when the government renegotiated general practitioners' contracts—and miscalculated so badly that it ended up paying them a third more for fewer hours' work. To get them to accept performance-related pay, the government let GPs give up out-of-hours care for their patients in exchange for a mere £6,000-a-year salary cut. Since it simultaneously gave GPs many new ways to earn more, from hitting vaccination targets to recording more patients' blood pressure, 90% of doctors decided to work only normal office hours.

Ministers are now, belatedly, attempting to squeeze a few extra hours out of GPs. On February 4th Alan Johnson, the health secretary, bypassed negotiators from the British Medical Association (BMA) and wrote directly to every family doctor in England to ask them to accept new terms. The government wants surgeries to open for an average of three extra hours at evenings or weekends, for not much additional money. It has refused the BMA's counter-offer of two extra hours in return for more cash and lower penalties for doctors who opt out, and gives warning that if no agreement is reached it will unilaterally impose a harsher contract. "Gun-barrel" negotiation, fumes the BMA's chief negotiator. The organisation is polling its members this month and is even floating the notion that GPs could pull out of the NHS.

At first sight office hours seem an odd place to build the barricades. GPs spend most of their time on the very young, the old and the sick, few of whom are busy during the working day. A survey commissioned by the government in 2007 found that 84% of patients were happy with access to their doctors; only 4% wanted evening appointments and only 7% weekend ones. "If we're talking about the public health of this nation, 30 minutes here or there is irrelevant," says Nick Goodwin of the King's Fund, a health-care think-tank.

Yet although those extra hours may be clinically irrelevant, politically they are dynamite. There is a growing perception that much of the extra money spent on the NHS has been wasted—and full-time workers resent paying the lion's share for a service to which they have trouble getting access. "The moral high ground on which GPs have always stood is now wobbling a bit," says Mr Goodwin.

Some doctors think that the government is picking a fight with family doctors in order to clear the way for a new alternative, polyclinics—huge multi-professional centres that are open all hours, perhaps run by private companies and employing salaried doctors. Last year Lord Darzi, a surgeon who is currently leading a government review of the NHS, produced a blueprint for primary care in London in which polyclinics featured heavily. Even before his task is completed, other areas are considering such arrangements. In Birmingham health-care managers have suggested amalgamating 76 existing GP surgeries into 24 larger, franchise-style operations, quoting approvingly the branding and customer service of supermarkets. Perhaps GPs had better think a bit harder about those opening hours.

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London Underground

Mind the money gap

Feb 7th 2008
From The Economist print edition

Taxpayers pick up the bill for another corporate meltdown

Get article background

ON FEBRUARY 6th a power failure on London Underground's Jubilee line stranded hundreds of commuters in a train near Bond Street station and shut down the entire line at the start of the morning rush hour. Frustrated passengers seeking an alternative way to work jammed onto other lines, causing two of them to be suspended as well.

On reaching their desks several hours later, the capital's salarymen would not have been cheered by the news that the government is to pay £1.7 billion to the consortium of banks behind Metronet. The bankrupt firm had been upgrading two-thirds of the Tube network (although not, as it happens, the Jubilee line) under the £15.7 billion Public-Private Partnership (PPP) deals signed in 2003.

In a valiant attempt at news management, Transport for London (TfL), which operates the Underground, announced the official payout along with a big dollop of new cash (£39 billion through 2018) from the central government's Department for Transport to support the capital's buses, trains and so forth. Gordon Brown's government will have been grateful for TfL's attempts to bury the bad news: the PPP was pushed through by the prime minister himself when he was chancellor of the exchequer, over the objections of most transport-watchers and of TfL itself.

Chief among the criticisms—most recently stated in a report from Parliament's transport committee last month—was that the PPP contracts failed to transfer risk to the private sector. Metronet's five constituent firms—WS Atkins, Balfour Beatty, Bombardier, EDF Energy and Thames Water—put in £70m each. In return for their minimal exposure, Metronet's shareholders expected to earn returns on the equity portion of their contribution of around 20% a year—justified at the time on the grounds that the huge PPP deal was a unique and untried proposition. But the firms' exposure was slight. “There simply wasn't enough equity at risk to give incentives for Metronet to perform,” says Stephen Glaister, an economist at Imperial College, London, and a member of TfL's board.

As for the banks (led by Deutsche Bank and the European Investment Bank), 95% of the £3.8 billion loan they advanced to fund Metronet and Tube Lines (the other firm to win a Tube contract) was guaranteed by the government. Nevertheless, the MPs report, the banks charged around £450m more than they would have for debt issued by the government directly.

Although Metronet has been in administration since July 2007, only TfL itself has indicated any interest in taking over its work. Tony Travers, an economist at the London School of Economics, worries that after Metronet's members down tools it is not clear who could replace them. “There aren't that many companies that can do these sorts of jobs,” he says, which raises the possibility that some of the Metronet companies may return to work. A TfL spokesman is more optimistic: “The problem has never been with the firms themselves,” he says. “Just with the structure under which they were operating.”

For Ken Livingstone, London's mayor and a critic of the PPP, Metronet's demise is something of a personal triumph. He has long argued that the contracts should be redesigned and awarded again; with Metronet now defunct he looks like getting his way. And it is unlikely to do his electoral ambitions much harm: since the bail-out is coming from central government, taxpayers all over Britain, rather than Tube users in London, will pick up the bill.

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Scottish politics

Sharing the stage

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The Tories edge into the spotlight

ALEX SALMOND, Scotland's first minister, likes to be seen as an embattled hero fighting off threats to all things Scottish. His own threat on February 5th to resign and force an election if the devolved Scottish Parliament rejected his £27.9 billion spending plan for 2008-09 was typically theatrical. Yet the winners from these dramatics may not be his Scottish National Party (SNP) but rather the Conservatives.

The Tories' reappearance on stage after ten years in the wilderness is a sign of big shifts in Scottish politics. The once-dominant Labour Party is out of power. Its leader in the Scottish Parliament, Wendy Alexander, is mired in two investigations into party donations and unable to oppose the SNP effectively. Although it has only a minority of parliamentary seats, the SNP has reigned pretty much unchecked since coming to power in May.

Mr Salmond's most difficult task to date was getting his budget through the Scottish Parliament. His ambitions had already been trimmed back when the Treasury in London gave his government a smaller increase in funding than he hoped for. So an election pledge to recruit another 1,000 policemen was pruned to an extra 500 coppers, a promised £2,000 hand-out to first-time home-buyers was binned and a boast that £1.6 billion of student debt would be wiped out has disappeared.

Though these retreats balanced the books, Mr Salmond still had to secure 18 votes in addition to the SNP's 47 to be sure of pushing his budget through the 129-seat assembly. He wooed the two Greens by doubling a £4m fund for community renewable-energy projects and introducing carbon-costing for all government plans (though in the event they abstained). The Parliament's sole independent member was also promised loot for her patch.

Of the three main opposition parties, the Tories played the cleverest game. “I argued two years ago, to much derision, that we could achieve far more of our policies with a minority than a coalition government without compromising our principles,” says Annabel Goldie, the Scottish Tory leader.

Indeed, she reckons she has forced the SNP's hand on a number of important issues—money for another 500 policemen, restoring the original SNP pledge, cuts in local taxes for 150,000 small businesses to be made by 2009 rather than 2010 and a new strategy to combat drug addiction by concentrating on abstinence and recovery rather than on replacement therapies such as methadone.

Such done deals were enough for Mr Salmond to know that he would win on the budget. So why the resignation play to the gods before the vote? Mr Salmond's main aim is Scottish independence. No more than a quarter of voters supported it at the time of the elections in May and independence remains a long shot. Mr Salmond's odds-shortening strategy has several elements, one of which is to sound the alarm over every slight from the government in London—most recently, proposals that he thinks endanger Scottish banknotes (see article).

But his main game is to prove that the SNP can run Scotland well, despite the obstacles. Dramatics such as his threat to resign play well in the cheap seats, but their price may be the return of the Tories as a political force. Tory blue reappeared in Scottish electoral geography in May (see map); and in rural areas, where SNP yellow is strongest, the Tories are the principal challengers. Mr Salmond may find the second act a tougher proposition.

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Scottish banknotes

Under threat

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A pound of one's own

ONE clear sign that Scotland is another country is that its money looks different. Scottish heroes rather than Britain's queen adorn the notes issued by the three biggest Scottish banks. Sir Walter Scott, a novelist, is commemorated by the Bank of Scotland (now part of HBOS but, in 1696, the first bank in Europe to make a success of paper money) because he fought off a dastardly attempt in 1826 by Westminster to stop Scottish £1 notes from being issued.

The power of Scott's pen is needed now, rages Alex Salmond, Scotland's nationalist first minister: the British Treasury has launched a raid on this iconic lolly. Scottish and Northern Irish banks (unlike their English rivals) are still allowed to print money, which is worth exactly the same as Bank of England cash. But a new plan would make them back their notes more fully.

There are some £2.9 billion-worth of Scottish banknotes in circulation and £1.5 billion of Northern Irish. Issuing banks are currently required to deposit assets equalling about 95% of their notes with the central bank—but only from Friday to Sunday. The rest of the week the deposits are off earning interest elsewhere, and there is no financial backing for Scottish and Ulster banknotes. If an issuing bank went belly-up then, its notes would be so much lavatory paper.

Though it says a bankruptcy is unlikely, to improve financial stability the Treasury wants issuers to keep their deposits at the central bank seven days a week. This would lose Scottish banks some of the £65m they now earn in interest and “seigniorage” (income from selling their notes to other banks).

The Clydesdale Bank, a Scottish subsidiary of National Australia Bank, fears this means that issuing notes will no longer be worthwhile. The Treasury plan is ridiculous anyway, Mr Salmond argues, because Scottish banks are among the most stable in the world.

Perhaps so, but after Northern Rock's collapse bank customers are likely to prefer their security gold-plated. Scottish banks may be waving their claymores more to preserve a nice little earner than to defend a potent symbol of national identity. And that must perturb Mr Salmond, who hopes to lead Scotland to independence, as much as any assault from Westminster.

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Bagehot

The smell of Tony

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For Gordon Brown, there is no escape from his predecessor

Illustration by Steve O'Brien

HE'S STILL got it and, in Paris at least, they're still falling for it. In a packed amphitheatre at the Sorbonne on January 31st he pulled all the old hammy tricks: the shrugs and raised eyebrows; the “let us pray” hand gesture; the studied frankness; the refusal to compromise with imaginary enemies; the heroic vocabulary of “change” and “modernisation”. To British audiences, Tony Blair's mannerisms now seem so much mechanical ingratiation; but, like a debutante falling for a practised seducer, his rapt French listeners gave Mr Blair a standing ovation. In private he seems full of robust optimism, and much healthier than when he left Downing Street. It is almost as if there is an inversely proportional relationship between his fortunes and those of his struggling successor. There may be: in three different ways, Mr Blair stalks Gordon Brown's premiership.

Begin with the most abstract: the “-ism”. Blairism—meaning, in a domestic context, a belief in the power of market-based reforms to raise standards in the public services—is a philosophy that evolved in office, after more timid approaches failed. When Mr Brown took over, he strove (too hard, some of his confidants now admit) to distinguish himself from Mr Blair: to seem serious where Mr Blair was suave, humble where his predecessor was hubristic. Rhetorically, that effort extended to a coolness towards Blairism: the emphasis was on the overall quality of services rather than on mechanisms to improve it.

Though his team deny they have changed tack, Mr Brown seems to have gone through a high-speed version of the learning process Mr Blair took a term to complete; he now talks enthusiastically about using private-sector providers to help run the welfare state. Perhaps he has learned, as Mr Blair did, that public-service reform is a Sisyphean rock: pressure has to be constantly applied to stop it slipping back. Probably he has realised that Labour governments need incessantly to convince voters that their cash is being well spent—especially a government that has been in power for so long, and faces an economic downturn (ten years of plenty having been gobbled up by Mr Blair). Blairism again dominates the intellectual landscape of politics.

The second way Mr Blair stalks Mr Brown is through his acolytes: the Blairites. Quite a few are still in government. But some of the most eminent are on the backbenches. Only Charles Clarke—a serial minister who is said to have been courted by Mr Brown—has been noisily if codedly critical of the new regime. But some others are chuntering privately, for all their good behaviour in public.

In that public loyalty, at least, they take their cue from Mr Blair himself. Unlike Margaret Thatcher, he scrupulously refuses to talk about his successor. But his new career has embarrassed Mr Brown all the same. On top of his role as a Middle East peacemonger, Mr Blair has magnificently paid jobs with a bank

and an insurance firm, speaking gigs that are almost as lucrative and a mega-deal for his memoirs. Rumours about his income feed the impression of venality that assorted Labour party-funding scandals have engendered (Mr Brown's ungallant if understandable bid to shuffle the blame for those on to Mr Blair rather flopped).

Then there is Mr Blair's putative bid for the presidency of the European Council—an ambition that, to the cynical, lay behind the speech at the Sorbonne and a recent separate appearance with Nicolas Sarkozy, France's president. According to William Hague, the shadow foreign secretary, Mr Blair is “on [presidential] manoeuvres”. In a memorable speech, Mr Hague imagined the “smile of intolerable anguish” with which Mr Brown might greet President Blair's motorcade as it swept into Downing Street. Whether or not Mr Blair goes for it (he is thinking about it, say his friends), or gets it (perhaps, say European diplomats), the idea of a Blair presidency links Labour with a post which, like the treaty that creates it, many Britons frown on.

Worst of all, Mr Blair's manic activity is a perpetual reminder of the most galling thing about him for Mr Brown: that he exists.

Come back, nothing is forgiven

The reputations of all ex-leaders wax and wane, typically falling at the end of their tenures, then reviving when grudges fade and memory gives way to myth. Think of Bill Clinton, and the way his “brand” soared after he left the White House. In Mr Clinton's case, of course, the nostalgia was encouraged by his successor's shortcomings. Similarly, even now the reputations of Mr Blair and Mr Brown are intimately connected.

That is starkly true among foreign observers, to whom the appeal of grumpy Scottish Presbyterianism is even less obvious than it is to Britons. Cross as many Europeans sometimes were with Mr Blair, like the Sorbonne audience they picked up the scent of victory that he carried. Mr Brown baffles them. But the connection works at home too. Mr Blair is no king across the water: no one truly wants him back. The feeling is instead the sort aroused by, say, a gifted if wayward ex-football player, or a faded prima donna. Comparisons with those who follow are inevitable, and in this case—at least when it comes to outward political skill—they are not to Mr Brown's advantage. (In “Richard II” Shakespeare observes how, in politics as in art, “After a well-graced actor leaves the stage”, all eyes “Are idly bent on him that enters next,/ Thinking his prattle to be tedious.”) Whatever else he is and was, Mr Blair is a star. Mr Brown is not a star.

The prime minister seems to find it physically difficult to say his predecessor's name, just as he can scarcely bring himself to spit out that of David Cameron, the Tory leader. But some of those close to him are more forthright. Mr Blair, they say, is irrelevant. Come election day, voters will choose between Mr Cameron and Mr Brown, without reference to a long-gone third party. In a literal way they are right; but on another, atmospheric level, the scent of Tony still pervades British politics.

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Award: WorkWorld Media

Feb 7th 2008
From The Economist print edition

Jonathan Rosenthal, who writes about business for the Britain section, has won the Work Foundation's WorkWorld Media award for the best feature of 2007 ("Fresh, but far from easy").

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Economist.com WORLD INTERNATIONAL

Smoking

How to save a billion lives

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From The Economist print edition

Panos

A war against the weed spreads and escalates, though the odds are unequal

EVEN more than tempting liquors like tequila, tobacco is a pleasure that the Old World wishes it had never taken from the New. In 1492, when Christopher Columbus was met by tribesmen with “fruit, wooden spears and certain dried leaves which gave off a distinct fragrance”, he threw the last gift away. But his shipmates brought home the custom of sucking in the smoke, and the taste spread so rapidly that in 1604 King James I of England was prompted to issue a denunciation of the “manifold abuses of this vile custome”.

Vile indeed, but habit-forming and therefore lethally dangerous: it cuts short the lives of between a third and half of its practitioners. According to the World Health Organisation (WHO), perhaps 100m people died prematurely during the 20th century as a result of tobacco, making it the leading preventable cause of death and one of the top killers overall. Another 1 billion more may die from it in this century if current trends continue unchecked.

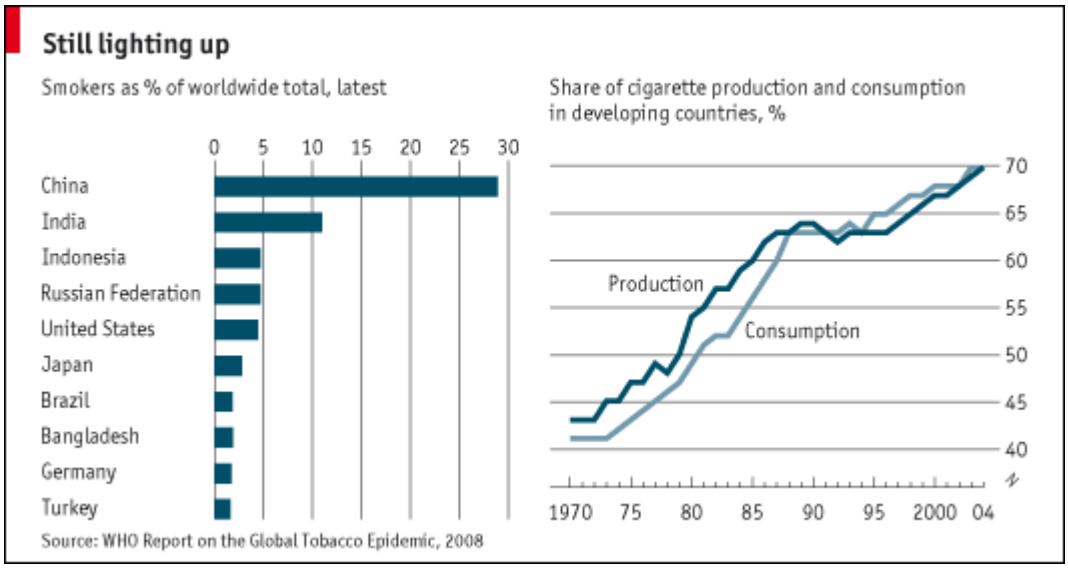
In recent years smoking has been sharply restricted in some unlikely places. In 2004 Ireland amazed the world by successfully imposing a tobacco ban on all workplaces; and at the start of this year, France's café culture suddenly went smoke-free. The draconian curbs introduced by California in 1998 have been followed, at least in part, by well over half America's states. But the number of smokers in China, India and other developing countries is continuing to grow, as addiction spreads faster than information.

Hence the determination of almost everybody involved in global public health to escalate the war on smoking. Over 150 countries have already ratified the Framework Convention on Tobacco Control, which requires countries to take a range of anti-smoking measures. Last July negotiators agreed on international norms for banning smoking in public places. Next week they meet in Geneva to discuss a protocol on tobacco smuggling.

In addition to new international rules, the WHO is pushing for aggressive policies at the national and local levels. On February 7th Margaret Chan, the WHO's director-general, and Michael Bloomberg, New York's zealously anti-smoking mayor, were due to unveil the most comprehensive survey of tobacco use ever carried out. The venue was fitting. Tom Frieden, the city's health commissioner, notes that the mayor's efforts have reduced smoking among the adults in New York by 20% and among teenagers in public schools by 50%. Mr Bloomberg's private charity, which supports many anti-smoking efforts worldwide, also funded the global survey, known as MPOWER.

The study is “a call to action to avoid a public-health catastrophe”, says Douglas Bettcher, head of the Tobacco Free Initiative at the WHO. The report lists the anti-smoking efforts of countries worldwide, offering benchmarks for aspiring reformers. What the survey shows, says Dr Bettcher, is that most

countries have yet to implement even those policies that are proven to work.



The WHO says countries must do six related things. The first is to improve the quality of data on tobacco use. The second is to impose sweeping Irish-style smoking bans; only 5% of the global population is now covered by such curbs. The third is to intensify efforts to induce and assist smokers to drop the habit. Only nine countries offer the kind of well-funded, accessible programmes of which the WHO approves.

Those ideas concern the existing users of tobacco; another three are aimed at persuading people not to light up in the first place. It may be hard to believe, but the WHO insists that most smokers still do not understand the full extent of the health risks. It wants all countries to mandate large, grotesque pictorial warnings on cigarette packets. Another policy proven to work (in the handful of countries, representing 5% of the world's population, to have tried it) is a complete ban on marketing. The agency is adamant that “partial bans on tobacco advertising, promotion and sponsorship do not work.”

The final prescription offered by the WHO is also the most powerful one: higher taxes. Studies show that raising tobacco taxes by a tenth may cause a 4% drop in consumption in rich countries and an 8% drop in poor ones, with tax revenue rising despite lower sales. The agency wants a 70% increase in the retail price of tobacco, which it says could prevent up to a quarter of all tobacco-related deaths worldwide. The claim is that higher taxes not only bring in revenue to fund anti-smoking efforts; they actually benefit the poor.

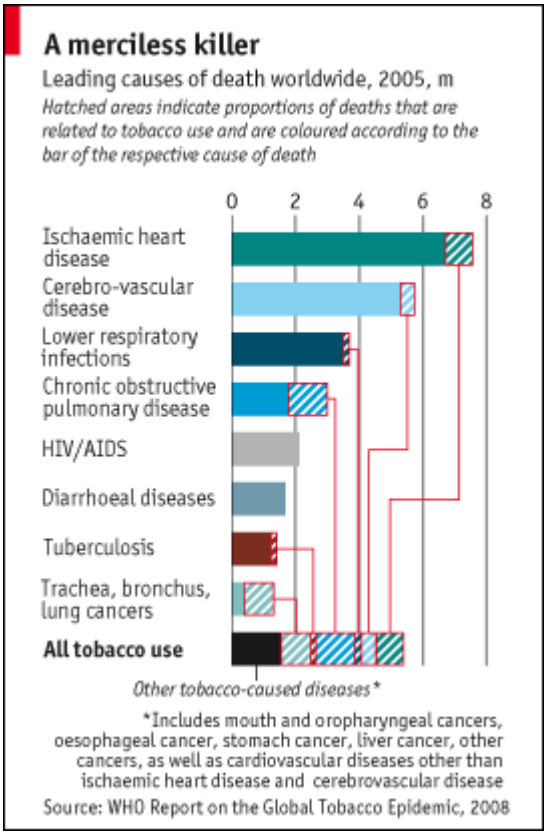
How come? A forthcoming paper by two scholars (Jonathan Gruber of the Massachusetts Institute of Technology and Botond Koszegi of the University of California) notes that smokers face a familiar choice between short-term pleasure and a long-term desire to quit. Tobacco taxes are an incentive to make the right choice, and because the poor are price-sensitive, they benefit the most. Indeed, the authors calculate that in the United States, “the monetary value of the health damage from a pack of cigarettes is over $35 for the average smoker, implying both that optimal taxes should be very large and that cigarette taxes are likely progressive.”

The practical argument for action is simpler: the tobacco industry is getting the world's poor hooked before governments can respond. In recent years, as rich countries have clamped down on smoking, tobacco firms have shifted their focus to poorer places. A study by Britain's Bath University found that by using aggressive tactics, such as targeting women, international tobacco firms had helped to double smoking rates in Russia since 1991.

The tobacco industry is regrouping in order to focus on “promising” markets and escape the pesky lawsuits it is likely

to face in rich, litigious countries. For example, Altria, a global tobacco concern based in the United States, plans to spin off Philip Morris International as a stand-alone foreign entity in late March. China is now home to more than a quarter of the world's smokers; it will soon be manufacturing Marlboro cigarettes for Philip Morris, and the firm will be exporting Chinese tobacco to other countries.

At times, the strategy used by public-health campaigners may seem heavy-handed; they retort that nothing else can work against a rich adversary. Indeed, Dr Bettcher argues that just as mosquitoes convey malaria, Big Tobacco is the “vector spreading this epidemic”. And eradicating tobacco may prove every bit as hard as fighting insect-borne disease.


A merciless killer
Leading causes of death worldwide, 2005, m
Hatched areas indicate proportions of deaths that are related to tobacco use and are coloured according to the bar of the respective cause of death
0
2
4
6
8
Ischaemic heart disease
Cerebro-vascular disease
Lower respiratory infections
Chronic obstructive pulmonary disease
HIV/AIDS
Diarrhoeal diseases
Tuberculosis
Trachea, bronchus, lung cancers
All tobacco use
Other tobacco-caused diseases*
*Includes mouth and oropharyngeal cancers, oesophageal cancer, stomach cancer, liver cancer, other cancers, as well as cardiovascular diseases other than ischaemic heart disease and cerebrovascular disease
Source: WHO Report on the Global Tobacco Epidemic, 2008

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Suicide-bombers

Just what are they dreaming of?

Feb 7th 2008
From The Economist print edition

Religion is not always the reason

AP

Rawalpindi (yet again) wonders why

THE list of causes and countries in which people are prepared to turn themselves, and those around them, into bloody piles of bone and gristle is long and growing. In Sri Lanka on February 3rd, a woman on a platform at Colombo's main railway station blew herself up, killing at least 15 people, including seven schoolboys and their sports coach. The next day, Israel saw its first suicide attack for more than a year: at a mall in Dimona, a Palestinian put an abrupt end to his own life, and that of an elderly Israeli woman. As rescuers tended to an unconscious youth who appeared to be a wounded victim, they noticed—just in time—that he too was wearing an explosives belt. Meanwhile in the Pakistani garrison town of Rawalpindi, where Benazir Bhutto was slain in December, a human bomb on a motorcycle rammed into a military bus, killing at least ten people.

There is almost always something mysterious about suicide: a gap between everything that was ever said by or known about the self-destroyer (even by his family), and the silence that remains. In the case of politically inspired suicide, the motives are at once more obvious and more elusive. Just why are terrorists, often promising young men (or increasingly, women) with much to live for, willing to kill themselves as well as others? It is exactly eight years since the first international conference on suicide terrorism was convened in Israel; since then, dozens of security pundits have been searching for new answers to the question.

At the time of that meeting in 2000, the secessionist Tamil Tigers, waging war in Sri Lanka, were the most prolific users of suicide tactics. Since then there has been a change. While Tamil nationalists are still at large, the locus of suicide-bombing has shifted to the Muslim world, and most perpetrators—whether they are fighting local wars, or a global campaign against America and its allies—have claimed to be acting in the name of Islam. The practice spread from the Hizbullah fighters of Lebanon to Hamas and other Palestinian groups—and thence to the killing fields of Iraq and Afghanistan. That prompts some Westerners to assert a link between Islam—especially Shia Islam, with its stress on martyrdom—and readiness for self-destruction.

But scholars who comb the available data about suicide attacks are often sceptical about religion's role. Robert Pape, of the University of Chicago, has identified three factors that make suicide terrorism probable. It is likely to occur when a community feels it is under occupation that must be resisted; when the "occupier" is a democratic society whose opinion can be swayed; and where there is a sectarian difference between the perpetrators' community and the target community. In his view, religious differences help to make suicide attacks conceivable, but they are not the main driver. Nichole Argo, a researcher at the Massachusetts Institute of Technology, agrees that religion's role is limited. What counts is a background of support for the idea of insurgency: a sense among self-annihilators that their peers will see them as heroes. Nor is religious indoctrination a big factor, Ms Argo insists; only a fraction of the alumni of hard-line *madrassas* in Pakistan and Indonesia engage in violence. Material deprivation is not decisive either; many suicide-bombers are from comfortable backgrounds.

Randall Collins, of the University of Pennsylvania, has made a good point about middle-class bombers: to do their job, human bombs need middle-class virtues like politeness and discretion—till the very moment of self-annihilation.

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The internet

Of cables and conspiracies

Feb 7th 2008
From The Economist print edition

An online frenzy that seems way out of line

WHEN two undersea cables were damaged, apparently by ships' anchors, five miles north of Alexandria on January 30th, it seemed like a reminder of the fragility of the internet. The cables—one owned by FLAG Telecom, a subsidiary of India's Reliance Group, the other (SEA-ME-WE 4) by a consortium of 16 telecoms firms—carry almost 90% of the data traffic that goes through the Suez canal. When the connections failed, they took with them almost all internet links between Europe and the Gulf and South Asia.

Egypt lost 70% of its internet connectivity immediately. More than half of western India's outbound capacity crashed, messing up the country's outsourcing industry. Over the next few days, as cable operators sought new routes, 75m people from Algeria to Bangladesh saw internet links disrupted or cut off.

But when, on February 1st, another of FLAG Telecom's cables was damaged, this time on the other side of the Arabian peninsula, west of Dubai, the story started to change. As an internet user known as spyd3rweb wrote on digg.com, "1 cable = an accident; 2 cables = a possible accident; 3 cables = deliberately sabotaged." The conspiracy theories started to take wing.

"We need to ponder the possibility", declared a posting on defensetech.org, "that these cable cuts were intentional malicious acts. And even if the first incident was just an innocent but important accident, the second could well be a terrorist copycat event." Or American villainy, said others. A user called Blakey Rat reported that "the US navy was at one point technically able to tap into undersea fibre-optic cables using a special chamber mounted on a support submarine." A website called the Galloping Beaver asked, "where is the *USS Jimmy Carter*?"—a nuclear attack submarine which had apparently vanished.

The notion that something spookier than ships' anchors was to blame gained ground when Egypt's transport ministry said it had studied video footage of the sea lanes where the cables had been, and no ships had crossed the line of the breakage for 12 hours before and after the accident (the area is, in fact, off limits to shipping). Suspicion spread when yet another cable—between Qatar and the United Arab Emirates—went down on February 3rd. "Beyond the realm of coincidence!" said a user of ArabianBusiness.com.

In fact, the fourth break was unsuspicious: the network was taken down by its operator because of a power failure. But by that time the conspiracists were in overdrive. Slashdot.org, a discussion board, said Iran had lost all internet access on February 1st. “A communications disruption can mean only one thing—invasion,” said bigdavex, quoting a line from a “Star Wars” film. Bloggers in Pakistan, having recovered from their disruption, returned with a vengeance. The broken cables, they said, forced a delay in the opening of an oil bourse in Tehran; this would have led, claimed pkpolitics.com, to the mass selling of dollars “which would have instantly crashed [the American] economy”. Marcus Salek of New World Order 101.com (nwo101.com) added that “President Putin ordered the Russian air force to take immediate action to protect the Russian nation's vital undersea cables.”

There is just one small problem: Iran's internet connectivity was never lost. Todd Underwood and Earl Zmijewski of Renesys, an internet-monitoring firm, reported that four-fifths of the 695 networks with connections in Iran were unaffected. Most of the other theories dissolve under analysis, too. Perhaps the American navy can bug fibre-optic cables but it's not clear how. A report for the European Parliament found in 2000 that “optical-fibre cables do not leak radio frequency signals and cannot be tapped using inductive loops. [Intelligence agencies] have spent a great deal of money on research into tapping optical fibres, reportedly with little success.”

It may be rare for several cables to go down in a week, but it can happen. Global Marine Systems, a firm that repairs marine cables, says more than 50 cables were cut or damaged in the Atlantic last year; big oceans are criss-crossed by so many cables that a single break has little impact. What was unusual about the damage in the Suez canal was that it took place at a point where two continents' traffic is borne along only three cables. More are being laid. For the moment, there is only one fair conclusion: the internet is vulnerable, in places, but getting more robust.

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Correction: Western Sahara

Feb 7th 2008
From The Economist print edition

On January 17th ("When freedom stumbles"), we indicated on our maps that Western Sahara, a disputed territory occupied by Morocco, was considered a “free” country. Freedom House, which provided the map, classes it as “partly free”. Sorry.

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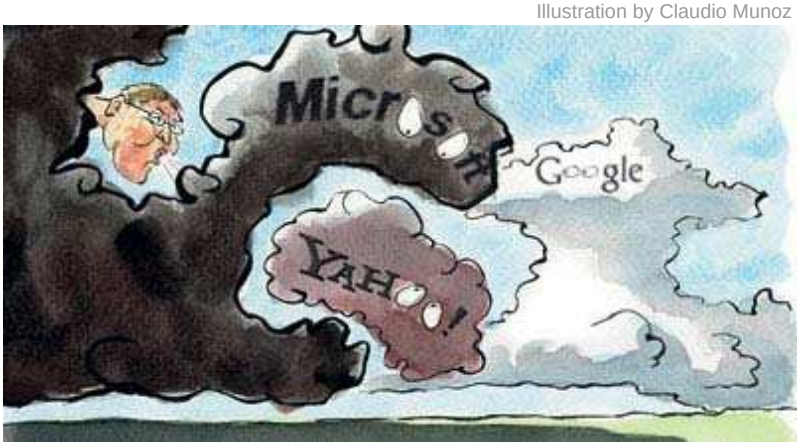
Microsoft v Google

When clouds collide

Feb 7th 2008
From The Economist print edition

Illustration by Claudio Munoz



Microsoft's bid for Yahoo! is not just about online advertising

THE collision of two clouds is a gentle affair—except, that is, in the digital skies of the technology industry. But such a virtual collision is the best image to keep in mind when trying to understand why Microsoft, the world's largest software company, has bid a whopping $44.6 billion for Yahoo!, an ailing online giant. As computing moves online, the sources of power and money will increasingly be enormous "computing clouds", as the cognoscenti call them, hosted on the internet. The Yahoo! deal is mainly about inflating Microsoft's cloud so that it can at last match that of its most dangerous rival, Google.

To be sure, the merger, which would be the internet industry's biggest since the ill-fated union of AOL and Time Warner in 2000, is far from a done deal. As *The Economist* went to press, Yahoo! had yet to reply formally to the offer, other than to say that it was considering it. Indeed, its management, which has spurned previous overtures from Microsoft, is said to have been looking into alternatives to the takeover, including selling off some units and even considering an alliance with Google. A rival bid is possible, but so far no one appears inclined to enter into a bidding war with deep-pocketed Microsoft; its offer values Yahoo! at $31 a share, a 62% premium over its closing price before Microsoft's bid was made public. And then there is the inevitable antitrust review, which promises to be lengthy, particularly in Europe.

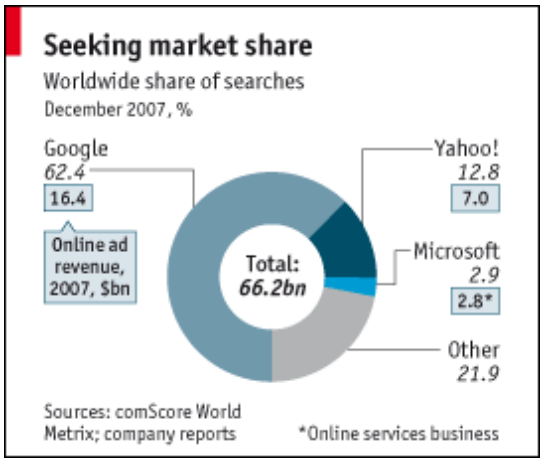
If Microsoft does manage to swallow Yahoo!, it risks a severe bout of post-merger indigestion, as happened with AOL and Time Warner. (This week Time Warner's new boss, Jeff Bewkes, said he planned to spin off AOL's shrinking internet-access business.) Microsoft will have to combine or eliminate overlapping products and services. There will be cultural problems to overcome, too. Yahoo! is an online-media company that prides itself on its fun-loving ethos and has built its business on open-source technology, whereas Microsoft attracts hard-charging geeks and makes its money from proprietary software. So combining the two firms' technology infrastructures to make further savings will also be tricky.

Since Microsoft must know all this, the fact that it still wants to buy Yahoo! is nothing less than an admission that it needs help to catch up with Google. The latter is best known for its search engine, but it was also the first company to build a huge computing cloud—a nexus of hardware, software, data and people which provides online services. In Google's vast data centres, the computing equivalents of power stations, hundreds of thousands of machines are cleverly linked to act as one. Google collects vast amounts of data from its users and from the web. And it has hired an army of bright engineers to devise new services that make use of these resources.

Most importantly, Google has figured out a way to make money from its cloud. By giving away its services, the firm creates plenty of space for targeted advertising, mostly in the form of small text-boxes related to users' search queries. These are auctioned, and buyers pay only if users click on their

advertisements. Google has thus created a virtuous cycle. As the largest search engine, Google attracts more advertisers and can serve up more relevant advertisements. This in turn attracts more users and advertisers, and so on.

In recent years Microsoft has tried to create a comparable cloud of its own. It is investing heavily in infrastructure and has built data centres around the world. It is also trying hard to catch up with Google's services, notably internet search. It recently strengthened its position in display advertising, a subset of the online-ad market that is smaller than search-based advertising, but is expected to grow quickly. In May Microsoft bought aQuantive, an online-ad agency, after Google agreed to buy DoubleClick, a leader in display.



Yet it has little to show for its efforts. In search, for instance, Microsoft's worldwide market share in December 2007 was 2.9%, according to comScore, a market-research firm, compared with 62.4% for Google (and 12.8% for Yahoo!). Microsoft's online business has yet to turn a profit. Yet what worries the firm's management most is that Google is pulling ahead in online advertising and may soon corner this crucial market, particularly once its acquisition of DoubleClick is completed. Despite fierce lobbying by Microsoft, American regulators have approved the deal, and their European counterparts are expected to follow suit soon.

Ironically, Microsoft argues that Google will benefit from the same advantage that has long made it almost impossible for any other firm to compete with its own Windows operating system, and which played an important role in successful antitrust cases against the software giant. Since so much software is written to run on Windows, it is difficult for competing operating systems to enter the market. Similarly, if too many publishers and advertisers adopt Google's online-advertising platform, rivals will not be able “to mount a credible competitive challenge”, as an internal Microsoft document puts it.

Having failed to keep DoubleClick out of Google's clutches, Microsoft now hopes that Yahoo! will keep it from being left in the dust. If it succeeds, the takeover would expand Microsoft's cloud, though not to the size of Google's. The combined firm's websites would attract over 290m unique visitors per month in America—slightly more than Google, according to Nielsen Online, another market-research firm. Yet Microsoft-Yahoo! would have a market share of only 18% in search advertising and 30% in display, according to Oppenheimer, an investment bank.

Still, the takeover would give Microsoft greater clout in other areas. One is web-based e-mail, where the merged entity would have 80% of the American market. It would be equally dominant in instant messaging. Since Yahoo! also offers many other services, such as Flickr, a photo-sharing site, Microsoft would control the world's biggest directory of registered internet users—a valuable asset as it develops new cloud-based services.

Nonetheless, the transaction could be good news for Google, at least in the short term. Google will most certainly try to lure away Yahoo!'s best staff. The integration effort will distract Microsoft's management and take time. Google has already launched a lobbying campaign to block the merger, arguing that it could undermine innovation on the internet—though neither Microsoft nor Yahoo! has done anything terribly innovative online lately. Indeed, the more Google complains about threats to innovation, instead of just getting on with doing it, the more it sounds like Microsoft used to.

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Mining mega-mergers

Some miner concerns

Feb 7th 2008
From The Economist print edition

China muscles in on a big deal

EVERYTHING to do with mining is impressively vast. It is an industry that makes huge holes in the ground and relies on trucks with tyres the size of houses. In recent years, thanks to China's rapid industrialisation and its voracious appetite for metals, mining companies have also produced mammoth profits, boasted gigantic valuations and undergone a series of outsized mergers and acquisitions.

BHP Billiton, an Anglo-Australian company that is the world's largest mining firm, is trying to do the biggest deal yet. On February 5th, just before a deadline imposed by British regulators, it increased its offer for Rio Tinto, the industry's number three. Having offered three of its shares for each of Rio's last November, BHP raised its offer this week to 3.4 shares, valuing its rival at $147 billion. Rio quickly rejected the revised offer. This is not the only big deal in the offing: Vale, a Brazilian firm and the industry's number four, has offered to pay $90 billion for Xstrata, ranked sixth.

The two main motivations behind such deals are scale and diversification. Bigger companies benefit from economies of scale: BHP reckons that buying Rio Tinto and merging the two firms' operations, in particular those at Pilbara, an immense iron-ore deposit in Australia, could result in annual savings of $3.7 billion within seven years. The combined firm would also be strong in aluminium, uranium and coking coal.

But too great an emphasis on a single commodity makes a company vulnerable to sudden price drops, so many mining deals are driven by a desire to diversify in order to spread risk and reduce volatility. That is what why Vale, the world's leading producer of iron ore (though BHP and Rio together would be almost as big), wants to buy Xstrata. The Brazilian company has already built up an impressive nickel business, and Fraser Phillips of RBC Capital Markets, a Canadian bank, says acquiring Xstrata would propel Vale into the big league in copper and coal, too.

But now a further ingredient has unexpectedly been added to the dealmaking mix. In an audacious move on February 1st, Chinalco, the state-owned parent of China's biggest aluminium producer, teamed up with Alcoa, an American firm, to buy a 9% stake in Rio Tinto for $14 billion. (Alcoa contributed $1.2 billion to the investment.) Though the precise motivations behind China's largest-ever foreign investment are unclear, the timing was certainly not the “coincidence” that Chinalco claimed. By taking a stake in Rio, China evidently hopes to be able to influence the outcome of BHP's attempted takeover.

Chinalco seems to have hoped that paying a high price for its strategic stake in Rio would discourage BHP from increasing its bid. (The implied valuation would require BHP to offer four of its shares for each one of Rio's.) If so, its gambit failed. But since BHP's takeover would be conditional on antitrust approval, which could take months, Chinalco has a number of options in the meantime. It could increase its stake still further, launch a full bid for Rio itself or hope that an even higher offer from BHP will enable it to walk away with a handsome profit.

The most likely explanation lies in the potential pricing power that a combined BHP-Rio would have over iron ore. This has petrified China's steelmakers and prompted Chinalco's intervention. Iron ore is vital to China's economic expansion, and much of the ore from Pilbara ends up in China. Negotiations between steelmakers and the world's three main iron-ore producers (BHP, Rio and Vale) to set annual benchmark prices for ore, which are under way, are said to be particularly fraught this year. China accepts that prices must rise, but not by the 50% or more that producers want. Last month several of Vale's shipments of ore to China were delayed, which increased the pressure. The Chinese may have seen this as a taste of things to come.

Part of the problem is that the miners' own memories of bad times have led them to behave in ways that have stoked China's worries. Mike Oppenheimer, the boss of Ferrexpo, a mining firm based in London, points out that 20 years ago, at the sniff of a price rise, miners would overinvest in new capacity—and prices would duly slump again. Mining companies have since become more cautious and expansion has

been more careful, which helps to explain why meeting burgeoning demand in the short term has been difficult. Both BHP and Rio Tinto have ambitious plans to boost ore production at Pilbara.

As well as taking an interest in the BHP-Rio battle, Chinalco is also rumoured to be interested in taking a stake in Xstrata, to influence Vale's takeover attempt. So Chinalco would appear to be adopting the strategy of the big listed mining companies in one respect at least. It has built a copper business alongside its aluminium activities, and its stake in Rio has the effect of diversifying its portfolio (as will any future stake in Xstrata). Russia's Rusal, a leading aluminium producer, which is trying to take over Norilsk, a big Russian nickel firm, is also said to covet a slice of Xstrata for similar reasons. The potential for intrigue and drama, it seems, matches the rest of the mining industry in scale.

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Samsung

Losing its shine

Feb 7th 2008 | SEOUL
From The Economist print edition

South Korea's biggest conglomerate has handled a series of crises badly

THE lunar new year, celebrated this week, is usually a time when those employed at South Korea's family-owned conglomerates, or *chaebols*, enjoy a few days off. But there is little to celebrate for executives at Samsung, the biggest and best-known *chaebol*, which has lately been hit by an investigation into alleged corruption, an oil spill and an adverse court ruling relating to a failed subsidiary.

Samsung's problems started in November when Kim Yong-chul, formerly its top legal executive, alleged that the group maintained slush funds with which to bribe politicians, judges and the press, and that it had committed accounting fraud to ensure that the group remained in the hands of its chairman, Lee Kun-hee, and his family. Samsung insists that Mr Kim's accusations are groundless. An official investigator, Cho Joon-woong, began looking into his allegations in January.

There is a widespread belief that Samsung, whose sales are equivalent to some 20% of South Korea's GDP, is simply too powerful to be brought to heel by Mr Cho's inquiry. Many South Koreans were cynical about the well-publicised searches carried out at Mr Lee's home and the offices of other executives, noting that they took place weeks after the original allegations.

But the cynics who forecast business as usual for the *chaebol* were proved wrong in December, when a barge operated by Samsung Heavy Industries, a subsidiary, broke free from its tow lines in heavy weather and slammed into an oil tanker. More than 78,000 barrels of oil leaked out, South Korea's worst spill. Images of dead, oil-covered birds, devastated fishing grounds and despairing people who relied on the ocean for their livelihoods appeared on television day after day. In January thousands of people from the affected region converged on Samsung's headquarters in Seoul and threw oil-stained fish and oysters at the building. At another protest, the owner of a raw-fish restaurant killed himself by drinking agricultural chemicals and setting himself on fire.

In a culture where swift acknowledgment of wrongdoing is expected, Samsung was seen to be dragging its feet. It took a month and a half to apologise for its part in the oil spill. Samsung says it delayed its apology because the accident's cause was unclear and it was not entirely to blame, though the owner and operator of the tanker have denied any wrongdoing. On January 21st the courts indicted Samsung Heavy Industries and the owner of the tanker on charges relating to the spill.

Ten days later a court ruled against Samsung and Mr Lee in South Korea's biggest civil lawsuit. It ordered them to repay 3.15 trillion won ($2.7 billion) to the creditors of Samsung Motors, a subsidiary which went bust in 1999. Mr Lee had pledged shares in Samsung Life Insurance to creditors, promising a payout when it went public—which has yet to happen.

Given all these problems, you might expect contrition from Samsung executives. But when Mr Cho asked several Samsung executives to come to his office they said they were too busy, provoking further public outrage. Samsung now acknowledges that it has an image problem. “We are concerned about the negative impact on the Samsung brand,” says a spokesman. But in the eyes of South Koreans, the *chaebol* whose name means “three stars” has already lost its shine.

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Kenya's flower industry

Roses are red

Feb 7th 2008 | NAIROBI
From The Economist print edition

Violence and political turmoil threaten a flourishing industry

AFP

Business is blooming

IF YOU live in Europe and are lucky enough to be given roses by your Valentine, there is a good chance that they were grown in Kenya—specifically, in one of the colossal greenhouses that blot out the once wild shores of Lake Naivasha, 90km (56 miles) north-west of Nairobi. Some 25% of Europe's cut flowers come from Kenya.

After a tentative start in the 1980s the industry is now the country's third-largest foreign-currency earner, bringing in $120m a year. The top two earners, tourism and tea, have been wrecked by the spasms of bloodletting and ethnic cleansing since December's disputed election. Safari lodges are mostly closed, and package tourism on the coast is ruined for the rest of the year. Lost exports are costing the tea industry $2m a day, and violence on the big tea estates around Kericho has destroyed machinery, warehouses and housing.

The flower farms are clinging on, but the violence could not have come at a worse time. Although they grow buttonhole carnations in every shade of cream, the real money is in red roses. The Lake Naivasha Growers' Group, an alliance of owners, says Valentine's Day accounts for one-third of their annual production. Oserian, one of the largest farms, hopes to sell 6m roses this week. Its 5,000 workers live on the farm, and nearly all have been reporting for work. The story is very different on the smaller farms, where workers live off-site in their own often squalid and insecure housing.

Several days of work were lost when violence reached the lake on January 26th. Killings elsewhere in the country led to an explosion of anger and a systematic campaign to drive out workers belonging to the Luo group. A local trade union says 3,000 of the 30,000 workers employed in Naivasha's flower farms have abandoned their jobs, most of them Luos. The growers are trying to limit further trouble by housing displaced workers in a temporary camp. Hiring replacements will not be difficult, since the average monthly salary of $80 plus benefits is considered a good wage.

Roses need labour-intensive watering, pruning and treating before they can be clipped and flown daily to buyers in Amsterdam and London. The best are sold through (Dutch) auctions to florists; the less good end up in European supermarkets. Kenya emerged as a flower power when Israel scaled down its own industry. It has since lost business to neighbouring Ethiopia, which offers tax breaks and better security, but Naivasha's perfect intensity of sunlight and days of near-constant length should keep it on top. In any case, the owners are stoical. “We're committed privateers,” says one. “We'll just pick up and move somewhere else in Africa.”

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Business in Japan

Food for thought

Feb 7th 2008 | TOKYO
From The Economist print edition

What a cache of bad dumplings says about Japan's changing workplace

THE Japanese public is scandalised. Over 700 people have fallen ill in the past few weeks after eating Chinese-made *gyoza*, or dumplings, apparently tainted with harmful pesticides. In a rare display of co-operation, the Japanese and Chinese authorities have launched a joint investigation. Whether the poisoning was an industrial accident or sabotage intended to harm Sino-Japanese relations, as the Chinese have suggested, is unclear.

But this food-safety scare is merely the latest. In recent months there have been several, mostly minor, home-grown incidents. Fast-food restaurants and convenience stores were caught selling products slightly past their expiry dates, as were some well-known confectionery firms. Several restaurants and wholesalers mislabelled inferior produce as first-rate. The public was outraged, but no one fell ill.

On the surface, these incidents highlight Japan's obsession with cleanliness, especially when it comes to food. They also show up the ineffectiveness of the country's food inspectors. Japan's high food prices, coupled with low wages, lacklustre consumption and economic malaise, also inspire corner-cutting.

But these minor scandals actually say less about food safety than they do about how Japan's workplace, and society more generally, is changing. Company loyalty, long a Japanese hallmark, is breaking down as firms rely increasingly on part-time and temporary workers rather than full-time staff who were treated as corporate kin. Most of the food-safety problems were exposed by whistleblowers. The number of tip-offs surged after a law to protect whistleblowers was introduced in 2006. Last year calls to the agriculture ministry's food-safety hotline went up from about 100 per month to around 700 in both October and November, after the revelation that a wholesaler had sold “100% beef” that was, in fact, adulterated with other meats. Regulators are overwhelmed by tip-offs and cannot investigate them all, says Yoko Tomiyama of the Consumers Union of Japan.

Japanese workers have traditionally been devoted to their employers; jobs were secure and people rarely switched. It is a vestige of the feudal system of *bushido*, which governed a samurai warrior's allegiance to his overlord and a master's duty of care towards his underlings, says Akira Saito, business-ethics expert at Chuo University. At the same time, traditional management practices, in which admission of a problem in one's division is regarded as a weakness, made it hard for employees to raise concerns about bad practices.

Yet in recent years things have changed. Since the early 1990s, when Japan's economy slumped, the number of part-time and temporary workers has gone from 20% to nearly 35% of the workforce. Improper activities that had been overlooked for years are coming to light because temporary staff have little or nothing to lose by revealing them. And the availability of tip-off phone lines and protection for whistleblowers means that they now have somewhere to turn outside the firm.

The tainted-*gyoza* incident has alerted an already jittery public to the dangers of food contamination. It has been bad news for Japan Tobacco, whose subsidiary JT Foods imported the offending *gyoza* from China's Hebei province. On February 6th it called off a merger of its frozen-food unit with another food firm. The incident has also awakened culinary nationalism. Japan bought $8 billion-worth of foodstuffs from China last year, including half its imported vegetables, but food from China is suddenly less popular. Japan's own, scandal-ridden food companies may thus benefit from the latest scare.

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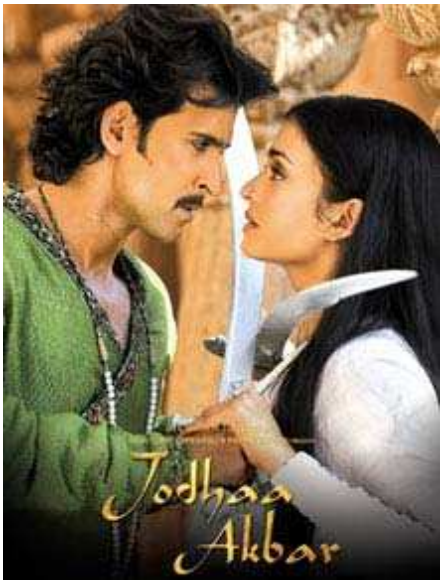
India's film industry

Bollywood rising

Feb 7th 2008
From The Economist print edition

UTV Motion Pictures is using Hollywood methods to modernise Indian film

UTV



No bursting into song, we promise

IN 1958 the film “Mother India” was nominated for an Oscar, and its director, Mehboob Khan, wanted to go to Los Angeles for the awards. India was short of foreign currency, and according to a book about Bollywood by Mihir Bose, Mr Kahn had to beg the government for money for the trip, writing, “I should be able to show that our government is also backing me. Otherwise, I will look small and lonely.” How things have changed. Now Hollywood is courting Indian film producers: Disney, Viacom, News Corporation and Sony Pictures have all done deals with Bollywood companies in the past few years, and within the next month Disney plans to increase its stake in UTV Software, the parent of an ambitious young film studio in Mumbai, from 14.9% to as much as 30%.

When Ronnie Screwvala, UTV's founder, started its film studio in 1995, he noted that the market was dominated by small, family-run operations which stuck to one formula: the song-and-dance-laden love story. “There was no experimentation and the market was not developing,” he says. Bollywood took a leap forward in 2001 when the government gave it industry status, meaning banks were allowed to lend to it. Cash from criminals was previously thought to finance many movies, and legitimate funds helped professionalise the industry. But until very recently, the films themselves did not change much.

Mr Screwvala's studio, which is now India's second biggest, avoids song-and-dance routines and spends up to $12m on each film—far more than the Bollywood norm. For most Indian movies about 5% of the budget goes on marketing, but UTV spends up to 40%—similar to Hollywood studios. And just like a Disney or Warner Bros, UTV does its own distribution, so it can make more daring films. “Rang De Basanti” (2006), about the struggle for independence, had no singing and dancing, no lead heroine and ended tragically—but nevertheless earned $31m, having cost $6m.

What sets UTV furthest apart from its family-run competitors is its ambition to make films for foreign markets as well as for Indians. It has co-produced two movies with News Corporation's Fox Filmed Entertainment, and this year the two studios will release “The Happening”, a thriller directed by M. Night Shyamalan which is costing them about $28m each. UTV also has a co-production deal with Will Smith, a Hollywood actor. Plenty to sing and dance about, in short—if not on the screen, then behind the scenes.

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Auction houses

Playing favourites

Feb 7th 2008
From The Economist print edition

Offering guarantees gives auctioneers a vested interest in their auctions

AFP

ROBERT BROOKS has firm views about his trade. “The minute an auction house moves away from simply being an intermediary between buyers and sellers and takes on the role of financier,” he says, “it starts to change its core character as well as the relationship between the seller, his agent and the buyer.” Mr Brooks is the chairman of Bonhams, a British auctioneer of art, jewellery, cars, musical instruments and furniture. He says his firm is an agent only. In particular, it does not offer sellers guaranteed sums, regardless of the price their items fetch in the auction room.

Bonhams' way of operating has become the exception rather than the rule. Thanks to the unprecedented boom in the art market, Christie's and Sotheby's, the duo at the top of the art-auction world, have resorted to offering sellers ever more lavish guarantees for particularly desirable works of art. In effect, a guarantee is an agreement to buy a work for a specified minimum price.

For auctioneers, the practice can be highly profitable. If the hammer price exceeds the guarantee, which is usually at the lower end of the valuation range in the sale catalogue, the seller and the auctioneer share the difference. And the auctioneer pockets the commission too: 25% of the hammer price for items fetching up to $20,000, 20% for those at $20,000-500,000, and 12% for works that sell for more than $500,000.

Last year Sotheby's made about $15m by offering a guarantee for a Mark Rothko painting owned by David Rockefeller, an American banker. It sold for $73m—almost double the estimated $40m guarantee. Sales of items with guaranteed prices accounted for perhaps $1 billion of the more than $6 billion that the two big auction houses turned over last year.

Even so, guarantees are risky. If a painting fails to reach the reserve, or minimum bid price, a guarantee can cost the auction house dearly. Last year Sotheby's hoped that “Wheat Fields”, painted late in life by Vincent van Gogh, would fetch up to $35m, but it failed to attract any bids over $25m and did not reach its undisclosed reserve price. As a result, Sotheby's became the picture's unwilling owner. The day after the auction the company's share price fell from $50 to $36. Two days later Sotheby's announced its third-quarter results, which included a $14.6m loss stemming from guarantees relating to the ill-fated sale.

At the big sales of Impressionist, modern and contemporary art at Christie's and Sotheby's between February 4th and 6th, most of the top paintings at auction had guaranteed prices—although, contrary to widespread assumptions, the most expensive painting on offer, Francis Bacon's “Triptych 1974-77”, valued at £25 million ($49m), was not guaranteed. The dark beach scene of a writhing man shadowed by black umbrellas, painted soon after the death of one of the artist's lovers, sold at Christie's on February 6th for £26.3m, just shy of the record for a Bacon at auction.

“Sellers who are very confident about their art don't need guarantees, which can reduce their upside considerably,” says Mary Hoeveler of Citigroup's Art Advisory Service. Owners of Bacon's work have reason to be optimistic. His gloomy art is the flavour of the season; last year it was Mr Rothko's colourful works, and the year before it was Willem de Kooning's abstract expressionism.

Though auctioneers deny it strenuously, guarantees are likely to make them partial. The prospect of earning a huge sum if a sale succeeds, or losing one if it fails, surely tempts them to push items with guarantees harder. This might mean a favourable presentation in the sales catalogue, or steering favourite clients in the direction of the works in question.

Christie's and Sotheby's mitigate the risk of a guarantee by farming out a portion of it to a third party, usually an art dealer or private collector interested in seeing the prices of a particular artist's work increase. Even the bosses of Bonhams, whose principled stand on guarantees probably reflects the fact that they lack the financial muscle to compete with the two big houses' guarantees, are “actively thinking” about third-party guarantees. Bonhams' sales last year were one-tenth of those of the two top dogs. Phillips de Pury, a niche auctioneer that specialises in modern art, photography and jewellery, says it offers guarantees in certain cases.

“It is a manipulated market, as Christie's and Sotheby's are not neutral,” says Ian Peck, the chief executive of Art Capital Group, a New York bank that specialises in art finance. The big two also constitute one of the most resilient duopolies in business. Bonhams and Phillips de Pury are much smaller and pose no real threat. Bonhams specialises in the “volume” middle-market, with sales of items worth £5,000-15,000. Phillips de Pury says auctions are the bulk of its business, but will in future focus more on building collections and on organising private sales for customers. It has given up competing with the top two, which capture about 95% of the market for premium-art auction sales. However imperfect their business model, this is unlikely to change soon.

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Face value

Disruption of service

Feb 7th 2008
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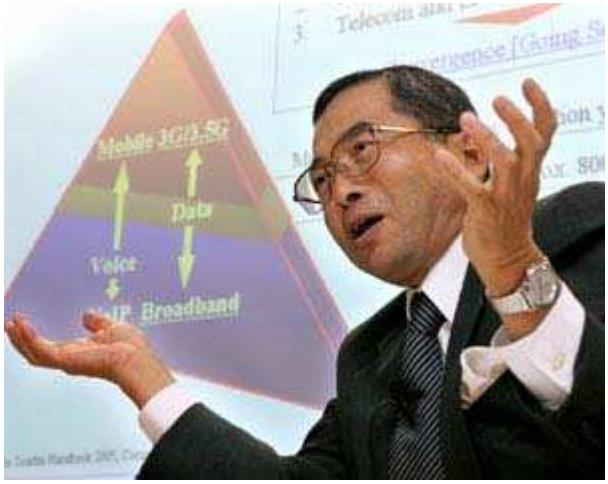

How Sachio Semmoto, a dogged serial entrepreneur, has reshaped Japan's telecoms industry

JAPAN is not known for its entrepreneurs. Bold small-business leaders are scarce; corporate decisions are usually made by consensus. Companies, according to an old saying, would rather that 100 employees each take a single step forward than one of their number take 100. This was the prevailing mentality when Sachio Semmoto took an engineering job in 1966 at Nippon Telegraph and Telephone (NTT), then a state-owned monopoly. To become a cog in such a mighty machine was considered one of life's highest callings. His talent was spotted and in the 1970s he was sent to America to get a doctorate. But the education he ended up receiving was of a different sort.

In America, having a job at one of Japan's most important companies counted for little. Some even sneered at the idea of working for a bloated monopoly. “That gave me culture shock,” Mr Semmoto says. “I couldn't understand that—I was proud of working for a government organisation.” But it dawned on him that there was an alternative to the industrial giants that he had always known. A decade later in 1983, at the age of 41, he stunned his colleagues by announcing that he was leaving to start a rival company, just as market liberalisation was starting. Such things were not done. Leaving a job was considered foolhardy; starting a competitor was regarded as deep betrayal.

“No one stood up to compete. But I perceived that if no one stood up, then Japan would not change. So I stood up,” Mr Semmoto says. The Japanese establishment did not share his enthusiasm. Some businessmen and politicians said they would use their power to ensure that his venture failed. But competition had its effect: outrageously high call charges fell and services improved; telecoms became more accessible to more people. Mr Semmoto's venture, today called KDDI, is the second-largest telecoms operator in Japan, with revenues of around $35 billion.

The way Mr Semmoto launched the firm sheds light on how entrepreneurship in Japan differs from that in the West. He teamed up with Kyocera, a huge ceramics firm that made electrical components, among other things. New companies in Japan often rely on big firms for backing, rather than beginning as wholly independent start-ups. Venture capital, then as now, remains paltry compared with Europe and America. The appetite for risk among investors and founders is also meagre. Rather than resembling snipers crawling on their bellies, as in Silicon Valley, Japanese start-ups are more like battleships in formation.

Mr Semmoto went on to take a post as a business professor at Keio University. But by the end of the 1990s the Japanese government was wringing its hands over another telecoms problem. Despite its high-tech wizardry, Japan was trailing in the internet age. At the end of 1999 only around 20% of the population was online, compared with around 40% in America. Moreover, prices were high; a heavy internet user might pay $200 a month.

Again, the provision of service was dominated by slow-moving incumbents—even KDDI had grown comfortable and complacent. So Mr Semmoto launched eAccess, a broadband company. Just as he had annoyed his NTT colleagues by setting up a rival, he now did the same at KDDI. “Of course I am controversial—one has to accept that as an entrepreneur,” he says. “If you want to disrupt the social infrastructure, which is very conventional, then you have to face pressure.” Its entrance helped to reduce prices by more than half across the industry, and within a few years eAccess had 15% of the market.

Meanwhile, yet another kink needed straightening in Japan's telecoms market. By 2005 mobile phones were everywhere but prices were far higher than in other countries. Constantly providing subscribers with fancy new handsets and tacit price collusion among the three operators—the same stodgy ones that had kept internet rates so high—were to blame. When licences for new wireless services were made available, Mr Semmoto saw his chance and another new firm, eMobile, was born. In Japan the boss of a new venture usually visits the heads of rival firms to show respect, but Mr Semmoto raised eyebrows again by refusing to do so. (He also has a reputation for being un-Japanese in his dealings with subordinates, confronting them with their mistakes rather than simply nodding politely.)

As an entrepreneur, Mr Semmoto “looks for the contradiction” (as he puts it) and then pounces. The inconsistencies might be high prices but no competition, or high uptake of a low-quality service. Japan's mobile market recently surpassed 100m subscribers; eMobile accounts for fewer than 200,000 users. But it is attacking with a radical business model: inexpensive flat-rate wireless data for any device (it plans to add voice service soon). And eMobile's costs are low, partly because it is the only Japanese operator that does not rely on domestic equipment-makers, buying instead from Ericsson of Sweden and Huawei of China. In most countries that would be no big deal, but in Japan it constitutes a stinging rebuke for local suppliers.

And the fight goes on

Businessmen are defined by their successes; entrepreneurs by their setbacks. Mr Semmoto has just hit a new obstacle: eAccess, together with Softbank, its sometime rival, recently failed to win a new high-speed wireless-data licence from the government. But his efforts to shake up corporate Japan continue. He has made corporate governance a priority at his recent ventures, appointing truly independent directors, many of them non-Japanese—a rarity in Japan. He is also campaigning to encourage Japanese to study abroad. Thirty years ago the world's best universities teemed with Japanese students; today their seats are filled by Chinese and Koreans, he says. “If we do not go to the outside world, we cannot survive,” he says. In his own career he has repeatedly looked beyond the constraints of the usual Japanese ways. And because of that, he remains an outsider.

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Technology in emerging economies

Of internet cafés and power cuts

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Emerging economies are better at adopting new technologies than at putting them into widespread use

Panos

WITHIN a few months China will overtake America as the country with the world's largest number of internet users. Even when you factor in China's size and its astonishing rate of GDP growth, this will be a remarkable achievement for what remains a poor economy. For the past three years China has also been the world's largest exporter of information and communications technology (ICT). It already has the same number of mobile-phone users (500m) as the whole of Europe.

China is by no means the only emerging economy in which new technology is being eagerly embraced. In frenetic Mumbai, everyone seems to be jabbering non-stop on their mobile phones: according to India's telecoms regulator, half of all urban dwellers have mobile- or fixed-telephone subscriptions and the number is growing by 8m a month. The India of internet cafés and internet tycoons produces more engineering graduates than America, makes software for racing cars and jet engines and is one of the top four pharmaceutical producers in the world. In a different manifestation of technological progress, the country's largest private enterprise, Tata, recently unveiled the “one lakh car”; priced at the equivalent of $2,500, it is the world's cheapest. Meanwhile, in Africa, people who live in mud huts use mobile phones to pay bills or to check fish prices and find the best market for their catch.

Yet this picture of emerging-market technarcadia is belied by parallel accounts of misery and incompetence. Last year ants ate the hard drive of a photographer in Thailand. Last week internet usage from Cairo to Kolkata was disrupted after something—probably an earthquake—sliced through two undersea cables. Personal computers have spread slowly in most emerging economies: three-quarters of low-income countries have fewer than 15 PCs per 1,000 people—and many of those computers are gathering dust.

And the feting of prominent technology projects in emerging economies is sometimes premature. Nicholas Negroponte, of the Massachusetts Institute of Technology, has long been championing a $100 laptop computer, presented with most fanfare at the World Economic Forum in Davos two years ago. The laptop was supposed to sweep through poor countries, scattering knowledge and connectivity all around. But the project is behind schedule, the computer does not work properly and one prominent backer, Intel, a chipmaker, has pulled out.

So how well are emerging economies using new technology, really? Hitherto, judgments have had to be based largely on anecdotes. Now the World Bank has supplemented the snapshot evidence with more comprehensive measures.

Take-off to tomorrow, and to yesterday

The bank has drawn up indices based on the usual array of numbers: computers and mobile phones per head, patents and scientific papers published; imports of high-tech and capital goods. In addition, it uses things such as the number of hours of electricity per day and airline take-offs to capture the absorption of 19th- and 20th-century technologies. It tops this off with measures of educational standards and financial structure, which show whether technology companies can get qualified workers and enough capital. The results, laid out last month in the bank's annual *Global Economic Prospects* report, measure technological progress in its broadest sense: as the spread of ideas, techniques and new forms of business organisation.

Technology so defined is fundamental to economic advance. Without it, growth would be limited to the contributions of increases in the size of the labour force and the capital stock. With it, labour and capital can be used and combined far more effectively. So it is good news that the bank finds that the use of modern technology in emerging economies is coming on in leaps and bounds.

Between the early 1990s and the early 2000s, the index that summarises the indicators rose by 160% in poor countries (with incomes per person of less than about $900 a year at current exchange rates) and by 100% in middle-income ones ($900-11,000). The index went up by only 77% in industrialised countries (with average incomes above $11,000), where technology was more advanced to start with. Poor and middle-income nations, the bank concludes, are catching up with the West.

The main channels through which technology is diffused in emerging economies are foreign trade (buying equipment and new ideas directly); foreign investment (having foreign firms bring them to you); and emigrants in the West, who keep families and firms in their countries of origin abreast of new ideas. All are going great guns.

To me, to you, to me, to you

Start with trade. In the past ten years the ratio of poor countries' imports of high-tech products to their GDPs has risen by more than 50%. The ratio in middle-income countries has increased by over 70%. Capital goods (mainly industrial machinery) often embody new technology, and imports of these have increased faster in middle-income countries than in rich ones.

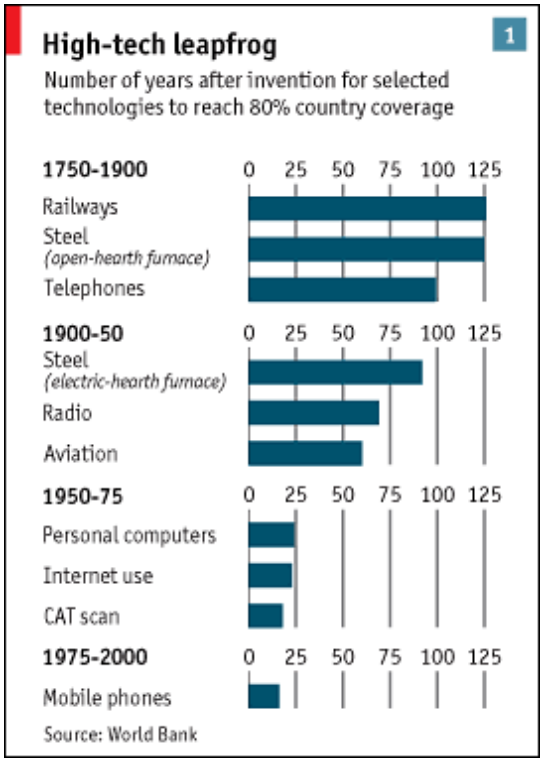
The gain in high-tech exports has been more striking still: emerging economies' share of global trade in such goods rose by 140% between the mid-1990s and the mid-2000s. Some of the world's fastest-growing multinationals have sprung from such countries. These include Brazil's Petrobras, owner of some of the world's best deep-sea oil-drilling technology, and Mittal, a company of Indian origin that is now the world's largest steelmaker.

Relative to GDP, inflows of foreign direct investment to developing economies have increased sevenfold since the 1980s. In some countries, such as Hungary and Brazil, foreign firms account for half or more of all R&D spending by companies. This has had dramatic demonstration effects. Local French-language call centres in Morocco and Tunisia got going only after French operators began outsourcing to the Maghreb. A quarter of Czech managers said they learned about new technologies by watching foreign companies in the Czech Republic.

Emigrants are arguably the most important source of new ideas and capital. Granted, emigration can be costly: computer engineers, scientists and doctors, trained at public expense at home, go to work abroad. But money and skills flow back. Nearly half the $40 billion-worth of foreign direct investment in China in 2000 came from Chinese abroad. Remittances have doubled in the past ten years and now account for roughly 2% of developing countries'GDPs—more than foreign aid. An émigré banker returned to set up Bangladesh's Grameenphone banking network last year; it now has 15m customers. Bata, a Czech shoemaker, has been saved twice by foreign connections. Facing bankruptcy in the early 1900s, Tomas Bata went to America to learn about mass production. He came back and established branches from India to Poland. After the second world war his son fled to Canada to escape the communists. He returned in 1989 and used late-20th-century know-how to expand in eastern Europe and open factories in China and India.

The upshot is that technology is spreading to emerging markets faster than it has ever done anywhere. The World Bank looked at how much time elapsed between the invention of something and

its widespread adoption (defined as when 80% of countries that use a technology first report it; see chart 1). For 19th-century technologies the gap was long: 120 years for trains and open-hearth steel furnaces, 100 years for the telephone. For aviation and radio, invented in the early 20th century, the lag was 60 years. But for the PC and CAT scans the gap was around 20 years and for mobile phones just 16. In most countries, most technologies are available in some degree.



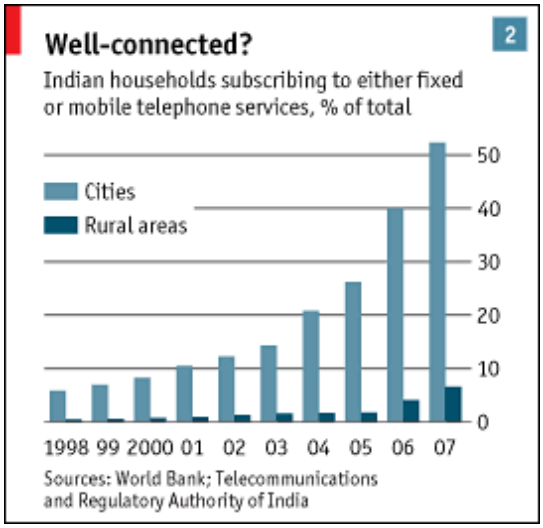
But the degree varies widely. In almost all industrialised countries, once a technology is adopted it goes on to achieve mass-market scale, reaching 25% of the market for that particular device. Usually it hits 50%. In the World Bank's (admittedly incomplete) database, there are 28 examples of a new technology reaching 5% of the market in a rich country; of those, 23 went on to achieve over 50%. In other words, if something gets a foothold in a rich country, it usually spreads widely.

In emerging markets this is not necessarily so. The bank has 67 examples of a technology reaching 5% of the market in developing countries—but only six went on to capture half the national market. Where it did catch on, it usually spread as quickly as in the West. But the more striking finding is that the spread was so rare. Developing countries have been good at getting access to technology—and much less good at putting it to widespread use.

As a result, technology use in developing countries is highly concentrated. Almost three-quarters of China's high-tech trade comes from just four regions on the coast. More than two-thirds of the stock of foreign investment in Russia in 2000 was in Moscow and its surroundings. Whereas half of India's city-dwellers have telephones, little more than one-twentieth of people in the countryside do.

Not only is there a technology gap between emerging economies and the West, and another within emerging economies: there are also surprising differences between apparently comparable emerging economies. For example, China imports and exports far more high-tech goods than India does and its exports are as technologically advanced as a country three times as rich. India and Bangladesh are neighbours with comparable levels of GDP per head. But electricity losses in India are about 30% of output; in Bangladesh, they are below 10%. And although Africa as a whole has low levels of mobile-phone use, in six countries (Botswana, Gabon, Mauritius, the Seychelles, Sierra Leone and South Africa) more than 30% of the population uses them.

The question is how much this unevenness matters. It is tempting to say, not much. What really counts, say techno-optimists, is that technology should get a toehold. Once it does, its grip will strengthen. So although only 6% of India's rural poor have phones, urban folk were at the same stage in 1998—and look what happened (see chart 2). Optimism about diffusion seems all the more plausible because of leapfrogging. Technologies such as mobile phones can be dropped into developing countries without the slog of building expensive infrastructure (such as land lines) and can circumvent the failings of old 19th- and 20th-technology. Poor countries will leapfrog into the next generation.

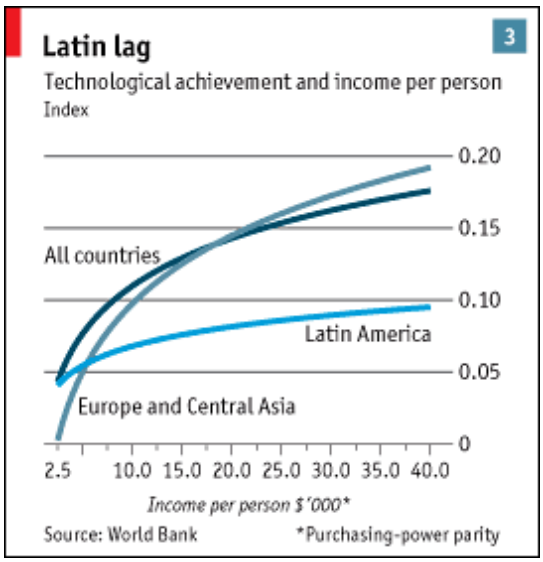


Fast or forget it

But this view—essentially, that technological diffusion is a problem that will take care of itself—may be too sanguine. The evidence from successful emerging markets is that if they absorb a new technology they usually do so fairly quickly. The corollary is that if a technology is not diffused promptly, it may at best be diffused only slowly and incompletely.

Judging by the World Bank's index, that is what seems to be happening in some places. As a general rule, technological

achievement rises fastest in poor and middle-income countries and then levels off as these countries approach Western living standards (see chart 3). But now compare Latin America and Europe. Eastern Europe is following the path taken by America and western Europe a few years before. But in Latin America the slope flattens at lower levels than elsewhere.



The region has less installed bandwidth and fewer broadband subscribers than poorer East Asia, and not many more internet users or PCs. High-tech exports account for less than 7% of the total in Argentina and Colombia, against one-third in East Asia. In Chile and Brazil less than 2% of the business workforce is in ICT. This relative technophobia probably reflects years of inward-looking economic policies, import substitution and disappointing education systems. Here, slow technological dispersal may not be just the result of a time lag. It may be evidence of more fundamental problems.

Broadly, two sets of obstacles stand in the way of technological progress in emerging economies. The first is their technological inheritance. Most advances are based on the labours of previous generations: you need electricity to run computers and reliable communications for modern health care, for instance. So countries that failed to adopt old technologies are at a disadvantage when it comes to new ones. Mobile phones, which require no wires, are a prominent exception.

The adoption of older technologies varies widely among countries at apparently similar stages of development. Soviet central planners loved to build electricity lines everywhere; the result is that ex-communist countries enjoy near-universal access to electricity (an extremely rare example of a beneficial legacy from communism). Latin American countries had no such background and as a result consume only about half as much electricity per person as eastern Europe and central Asia.

This partly explains the patchiness in countries' technological achievements overall. Call centres in Kenya, for example, pay more than ten times as much per unit of bandwidth as do rivals in India, because India's fibre-optic cable system is far better and cheaper. So sometimes you cannot leapfrog. As countries get richer, older technology constraints do not always fall away. It depends in part on how governments organise basic infrastructure like transport and communications.

The other set of problems has to do with the intangible things that affect a country's capacity to absorb technology: education; R&D; financial systems; the quality of government. In general, developing countries' educational levels have soared in the past decade or so. Middle-income countries have achieved universal primary-school enrolment and poor countries have increased the number of children completing primary school dramatically. Even so, illiteracy still bedevils some middle-income countries and many poor ones.

A similar pattern can be seen with R&D. Emerging economies spend less on R&D than rich ones: rich countries spend 2.3% of GDP on R&D, East Asians 1.4%, and Latin America 0.6%. Also important, though, is who spends the money; and this also varies considerably. East Asia's pattern is similar to the West's: companies spend most of the money and do most of the research. In eastern Europe and Latin America, by contrast, the government is the largest source of finance, and in Latin America universities do the largest share of the work. Sometimes government-supported research is fine: it triggered South Korea's technology boom in the 1980s. But in general, companies tend to be the most efficient and effective promoters of technology (mobile phones are a case in point).

And in rich countries, high-tech-firms get money from banks, stockmarkets and venture capitalists in ways that emerging-market entrepreneurs can only dream of. Here, and in government policy towards technology firms—meaning everything from trade openness to product standards—there has been little catch-up with the West. In Kenya, flower-growing counts as a technology-improving activity because it requires fertilisers, irrigation, greenhouses and just-in-time delivery. The damage wrought by political chaos (see article) is a reminder that technology is far more fragile in poor countries than in the West.

Yet it would be wrong to be gloomy about the technological outlook of emerging economies. The channels of technology transfer have widened enormously over the past ten years. Technological literacy has risen, especially among the young. But all this has helped emerging economies mainly in the first stage: absorption. The second stage—diffusion—has so far proved much more testing.

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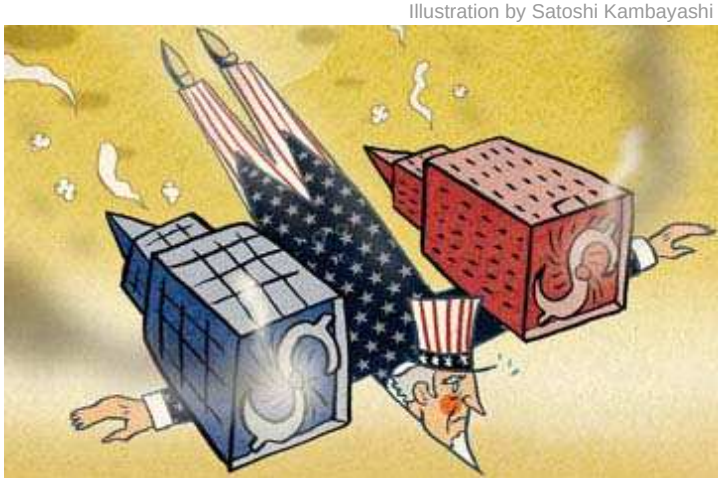
The credit crisis

Financial engine failure

Feb 7th 2008 | NEW YORK
From The Economist print edition

Illustration by Satoshi Kambayashi

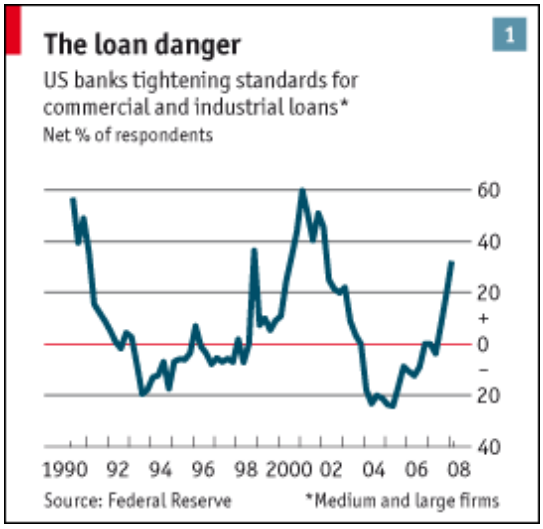


With problems spreading from Wall Street to Main Street, America's credit crisis will get worse before it gets better

WHEN a British Airways Boeing 777 crash-landed just short of the runway at Heathrow Airport a few weeks ago, there was a lively debate about why its twin engines had suddenly lost power at the same time. People might well ask the same question about the twin engines of America's credit system—the capital markets and the banks—whose simultaneous misfiring has helped drive the country close to, or into, recession.

The extent of America's economic woes was underlined on February 5th when signs of abrupt shrinkage in service industries in January helped push the S&P 500 stockmarket index down by 3.2%, its worst one-day fall in almost a year. The previous day, the Federal Reserve published its latest quarterly survey of bank-lending officers, which showed that the credit crunch was getting even crunchier (see chart 1). According to the Fed, a good number of banks had imposed stricter lending standards and higher rates on loans since the previous survey, carried out in October.

Although bankers are always stingier in a downturn, the Fed noted that lots of banks said they had also cut back lending because of a slide in their current or expected capital and liquidity. For that, blame the chaos in markets for leveraged buy-out (LBO) debt and complex mortgage-backed securities. Blame, too, the state of such bread-and-butter businesses as consumer and commercial-property lending, which are blowing new holes in banks' balance sheets.



Hopes that the stalled capital-markets engine might roar back to life in early 2008 have been dashed by grim news from, among other areas, LBOs. Until recently, banks had lent merrily to finance huge private-equity deals and then unloaded all or part of the debt into a deep and liquid secondary market. Often they accepted ropey loan covenants that offered little protection against default. Now, with recession looming, the number of borrowers defaulting on these loans is almost bound to increase. Appetite for LBO debt has dried up, as a group of banks discovered this week when they failed to syndicate $14 billion of debt used to pay for Las Vegas-based Harrah's Entertainment.

This hiccup means other big deals, such as a sale of the $15 billion of debt linked to the buy-out of Clear Channel Communications, are now in jeopardy. That could leave banks choking on a glut of loans whose value is falling fast. According to Standard & Poor's LCD, a unit of S&P, a rating agency, even relatively liquid leveraged loans are trading at roughly 88 cents on the dollar, compared with face value in the middle of last year (see chart 2). Some large loans syndicated last year, such as those used in the $29 billion buy-out of First Data Corp, are also trading at big discounts to face value, which will further put off potential investors.

Put that in your pipeline

How much of this unwanted debt could banks be saddled with? S&P LCD reckons $148 billion of LBO loans are in the syndication pipeline, most of which belong to banks, plus another $64 billion of high-yield bonds. If they are unwilling to accept bargain-basement prices, bankers may have to increase their provisions against the debt they keep. “This zombie cohort will trouble the markets for a while,” reckons Mark Howard, head of credit analysis at Barclays Capital.

Another source of trouble is the moribund market for mortgage-backed securities and that for collateralised-debt obligations (CDOs), which are backed by such securities. On January 30th S&P downgraded or threatened to downgrade more than 8,000 bonds and CDOs, noting that financial institutions' losses tied to them could more than double to a mind-boggling $265 billion.

Add to this the potential bill from the monoline bond-insurer debacle. Banks bought protection on credit derivatives from monolines in the form of credit-default swaps. But the insurers' capital base is now so thin that they may not be able to pay any claims. On February 6th MBIA, one of the biggest insurers, announced that it would raise an extra $750m via an equity issue to try to preserve its top-notch credit rating.

That leaves banks facing another potential hit. Quite how big this might be is tricky to estimate, as banks use different approaches to assign value to their hedges. But in the unlikely worst-case scenario of a bankruptcy of all of the monolines, Matt King, an analyst at Citigroup, estimates that the total bill could reach $34 billion.

Thus far, the credit crunch has been seen as a Wall Street phenomenon—understandably so given the Croesus-like sums that the big banks have frittered away. But it is fast becoming a Main Street one, too. “Regulators and bankers should be teaming up now to look at the next levels down in the system,” says Michael Poulos of Oliver Wyman, a consulting firm.

He has a point. For one thing, the impact of dodgy subprime-laced debts is being felt beyond the biggest banks: on February 5th Kansas-based US Central Federal Credit Union, a backstop for the nation's co-operative banks, lost its AAA rating from S&P because of the fall in the values of its mortgage-backed securities. For another, many banks' consumer and commercial-property lending businesses have been affected by the slowdown.

Strikingly, the Fed's loan-officer survey showed that 70% of respondents expect the quality of their credit-card and other consumer-loan portfolios to get worse. Some firms are already feeling the pinch: the fourth-quarter profit of Wachovia, a big regional bank based in North Carolina, shrank to just $51m compared with $2.3 billion in the same period of 2006, in part because of sharply higher losses on residential property and car loans. Shares of some credit-card companies fell this week after analysts at UBS told investors to sell their holdings of American Express, Capital One and Discover.

Coming to a bank near you

Commercial property is an even bigger headache. True, it is also a problem for Wall Street's finest: for instance, Deutsche Bank recently had to take over some Manhattan buildings belonging to Harry Macklowe, a well-known developer, after he failed to refinance $7 billion of short-term debt used to pay for them. But the property story has a uniquely worrying twist for banks across America.

That's because, in addition to offering commercial mortgages, regional and local banks also make huge numbers of “construction loans” to developers building malls, condominiums and other properties. A business the big investment banks pretty much ignored, construction lending was wildly profitable during the property boom, but now a growing number of these loans are turning sour in the bust. Chicago-based Corus Bankshares recently reported that its fourth-quarter earnings were virtually wiped out by a big provision against construction loans.

Regulators are getting nervous. In a speech to Florida bankers at the end of January, John Dugan, the Comptroller of the Currency, noted that more than one-third of America's community banks—and more than three-fifths of Florida's—have commercial-property loans that are more than three times their capital. And he went on to predict increases in loan-loss reserves and a rise in bank failures. How bad could things get? Gerard Cassidy of RBC Capital Markets estimates that between 50 and 150 banks with assets of up to a couple of billion dollars each could fail in the next couple of years, the highest rate since the savings-and-loan crisis of the late 1980s.

Painful though that would be, a more general constriction of credit—if banks' capital bases were sapped by soaring provisions and declining earnings—would be worse. This worry helps explain the Fed's recent alacrity in cutting interest rates. But given the fiddly problems of America's credit engines, it may take more than an injection of monetary fuel to get them humming again.

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Credit-rating agencies

Restructured products

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From The Economist print edition

A beleaguered industry looks to reform itself

HOUNDING credit-rating agencies has become the bloodsport of choice for moneymen. At a conference this week one speaker announced, to raucous laughter, that he had just received a news flash: “Moody's has downgraded Fitch, Fitch has cut Moody's in retaliation, and Standard & Poor's has put itself on negative watch.”

Politicians and regulators are on the chase, too. Financial regulators, meeting in Amsterdam this week, said they would review a code of conduct for rating agencies, with a view to improving disclosure and clamping down on agencies that give advice on the creation of securities they rate.

The agencies feel that criticism of their role in the crisis was, in part, based on a misunderstanding: their ratings are based on risk of default, not market swings. But, as mortgage delinquencies rise, even they now admit that they were wrong-footed, and that the golden ratings they awarded to many mortgage-linked “structured” products were flimsy, particularly those of collateralised-debt obligations.

In an effort to head off draconian new rules, the agencies have begun to think about changing the way they do business. On February 4th Moody's said it was considering a new rating system for structured securities, using numbers, not letters, and a suffix that would indicate the expected level of volatility.

Not to be outdone, S&P was due on February 7th to unveil more than two dozen reforms. New committees will oversee governance and modelling and will be reviewed periodically by an outside firm. Information on non-default factors, including liquidity (whatever that is), will be attached to ratings. Like Moody's, S&P may introduce separate tags for securitised products and will analyse the effects of unexpected events. “We need to be clear about what traditional ratings do and don't do. Increasingly people have inferred more than was intended to be conveyed,” says Deven Sharma, S&P's president.

Such stabs at self-healing may not placate everyone. Some point to more profound concerns: because ratings are deeply embedded in financial regulation, the agencies have been handed an oligopoly; they suffer a conflict of interest, because they are paid by the issuers of the securities they rate, not by investors; and they are unaccountable because their ratings are deemed mere opinions and thus protected as free speech.

None of these issues is easy to resolve. Switching to an investor-pays system might seem the obvious solution, but it is not clear that enough investors would cough up to make the business viable. Some, perhaps many, would hitch a free ride as ratings leaked.

In any case, agencies can reasonably claim to be tackling their conflicts. Moody's and S&P have built stronger walls between their analysts and salespeople. Both have vowed to review any rating issued by an employee who leaves to work for a client. “Whoever pays, there will be a conflict,” says Brian Clarkson, president of Moody's. “The key is to manage it.”

More competition should help, but it might just as easily lead to a race to the bottom, as agencies vie to offer the best terms to issuers. Making agencies legally liable for their opinions, meanwhile, would scare them out of the business.

The most appealing reform, in theory, would be to end the regulatory dependence on ratings and let investors draw their own conclusions from “expert” opinions and market data, as they do with shares. (Even the agencies themselves believe investors should be placing more emphasis on other indicators, such as derivatives prices.) But ratings are so pervasive that it is hard to see this being accomplished without great dislocation.

A more practical approach might be to let the agencies get on with their house-cleaning while introducing a reform borrowed from the accounting industry: a board, made up of industry types, investors and academics, charged with policing the agencies' analytical techniques and governance. Rating firms have embraced change, but they will need help convincing the world that they mean it.

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Buttonwood

Bear necessities

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When will the stockmarket become a buying opportunity?

WHEN most people are panicking, the smart money spots a buying opportunity. Some investors saw their chance in January, when many stockmarkets were 20% down from their peaks and apparently on track for a bear market. The Federal Reserve, which slashed interest rates twice within eight days, added to the feeling that the worst might be over.

But not for long. Economic data in America pointing to a weak jobs market and a recessionary mood in the service sector suggested those buyers might not have been so smart after all. In one day on February 5th the S&P 500 lost two-thirds of its gains from the previous week.

Spotting the difference between a genuine market low and the staging point for a short-lived "suckers" rally is notoriously difficult. (If it were easy, share prices would never fall to the low in the first place.) One approach is to look at sentiment. The best buying opportunities occur when investors are most gloomy. Unfortunately, sentiment is hard to measure decisively. At the end of January, bears outnumbered bulls by nearly 19 percentage points in a survey of the American Association of Individual Investors. That sounds pretty depressed. But Richard Bernstein of Merrill Lynch points out that Wall Street strategists are recommending a much higher weighting in equities than they did for much of the 1990s.

Can valuation tell us anything useful? There was a decisive buy signal for the London stockmarket in March 2003 when, for the first time since the late 1950s, the dividend yield on shares was higher than the yield on medium-dated gilts. With the exception of Japan, where a similar crossover has occurred, there are no obvious bullish triggers at the moment.

There are, broadly speaking, two schools of thought. The optimists argue that shares are not expensive relative to either trailing or prospective earnings and are very cheap relative to government bonds. The pessimists argue that corporate profits are historically inflated and could have a long way to fall as the economy subsides.

The profit picture has been deteriorating for a while, but so far nearly all the damage (with the exception of consumer durables) has occurred in the financial sector. HSBC reckons American non-financial companies have chalked up a gain in profits of 11% in the past 12 months. With profits forecast to rise further this year, the American market is trading on a prospective price-earnings ratio of just 14.

The trouble is that no one believes the earnings forecasts. Gerald Minack of Morgan Stanley points out that the consensus has not forecast a decline in profits in more than 20 years. And when profits do fall, the scale of the decline can be substantial. In American recessions since 1970, Citigroup says the average drop in global earnings has been around 30%.

So it may make more sense to look at profits over a longer-term, or cyclically adjusted, basis by averaging them over a number of years. James Montier of Société Générale says the price-earnings ratio on this measure is 21, well above the mean (for 1950-2007) of 16 times. And he adds that, in a real bear market, valuations rarely bottom at the average. In fact, a p/e of ten has tended to prevail at the low, suggesting the American stockmarket could have a long way to fall.

This assessment is disputed by Ian Scott, an analyst at Lehman Brothers. He reckons profits are only around 20% above trend and that, even if they fell back to the mean, shares would still look attractive.

But even a correct understanding of valuations may not help. Chris Watling of Longview Economics, a consultancy, argues that there is no correlation between the valuation of a stockmarket when a bear market begins and the size of the subsequent sell-off. Valuations in 1973 were well under half those prevailing in 2000, but both years marked the start of a fall of around 50%.

Nor would predicting the length and depth of the recession necessarily allow investors to forecast the outlook for profits. The 2001-02 downturn was relatively mild but that did not prevent a sharp fall in American corporate earnings.

This uncertainty helps explain why markets have been so volatile lately. It is tempting to believe the economic and credit problems are a short-term blip and that Wall Street will be rescued by the Fed as it has been so often before. But every time that view seems about to take hold, something happens to make investors fear a more sinister possibility: that years of debt-financed growth are finally unravelling and that the Anglo-Saxon economies face as bleak a decade as Japan did in the 1990s. The market may not hit bottom until that fear recedes.

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Société Générale

The rogue rebuttal

Feb 7th 2008 | PARIS
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Not only Jérôme Kerviel is pointing an accusing finger at the French bank

AFP

Kerviel, looking out onto a world looking at him

DAY by day the French have been watching the unfolding saga at Société Générale with a mix of horror and intrigue. This week has brought several twists to the tale of how a single trader, Jérôme Kerviel, whose desk was only authorised to take positions of up to € 125m ($183m), could have lost the bank €4.9 billion. Each leaves managers at the French bank looking even more negligent.

On February 4th Christine Lagarde, the French finance minister, published her hastily produced report into the affair. Two elements stand out. First, it says that SocGen managers acted in a “professional manner” when they wound up the bank's unhedged exposure, which had reached €50 billion, in a tumbling stockmarket between January 21st and 23rd. Their actions, it said, did not push the markets lower: on no day did the volumes the bank offloaded go much above 8% of overall activity. And the managers correctly informed the financial authorities concerned.

However, when it comes to the bank's control over its own staff, the report is a lot less forgiving. Daniel Bouton, SocGen's boss, has argued that Mr Kerviel could easily conceal the vast positions he took because he had previously worked in the back office, so was familiar with the system of controls. Not good enough, says Ms Lagarde: the internal controls at the bank “did not function as they should have and those that did function were not always properly followed up”. The report shows that in November 2007, Eurex, a clearing house, raised questions about the trades. And it confirms that Mr Kerviel had started to make trades without his superiors' approval back in 2005.

Ms Lagarde's report identified no fewer than eight ways in which SocGen should have kept a tighter watch, including a more sceptical attitude to “atypical behaviour”, such as not taking any holiday. When asked by the parliamentary finance committee this week how the bank failed to detect this fraud, Christian Noyer, governor of the Bank of France, replied that it was indeed “unbelievable”. The governor went on: “Frankly, I can't explain it.”

To back up this picture of carelessness, Mr Kerviel himself spoke out for the first time this week. He said that he was operating alone, admitted to having made fictitious entries to cover his tracks, and argued, with sublime understatement, that he “got carried away”. Although he acknowledged his part of the blame, he said that he was being made a “scapegoat” by the bank. Reports in the French press depict a young trader, from a small town in Brittany, keen to prove himself in a trading room dominated by members of France's educational elite.

According to testimony to the financial police, leaked to *Le Monde*, Mr Kerviel said that the techniques he used to cover his tracks “are not sophisticated at all”, and that he was convinced his superiors knew what he was up to, as he had received “several questioning emails” in 2007. By the end of that year, Mr Kerviel's unauthorised positions were €1.4 billion in profit; it was only in 2008 that his trades turned

negative. “As long as we earn and it doesn't show too much,” he said, “nobody says anything.”

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The IMF downsizes

It's Mostly Firing

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The dispenser of austerity is forced to tighten its own belt

THE letters IMF, goes an old jibe, stand for “It's Mostly Fiscal”. The International Monetary Fund has a long-standing reputation for dispensing nasty budgetary medicine to countries in economic distress. Whatever the problem, goes the caricature, well-paid bureaucrats from 19th Street demand that spending be cut.

This caricature may need revising. The fund has suddenly become a fan of fiscal stimulus. Its new boss, Dominique Strauss-Kahn, a former French finance minister, wants a fiscal boost—in America and other countries—to combat the risks of global recession. “Medium-term fiscal policy is all about saving for a rainy day,” Mr Strauss-Kahn argued in a recent commentary in the *Financial Times*. “It is now raining.”

And just as he is touting stimulus abroad, Mr Strauss-Kahn is demanding austerity at home. For the IMF finds itself in a big fiscal hole. Its $1 billion budget is traditionally funded by the small profit it makes on lending money to cash-strapped countries. But IMF lending has collapsed in recent years as developing countries have improved their economic management. As a result, the fund looks set to run a deficit of some $400m a year for the foreseeable future.

The organisation still has a fat cushion of reserves to draw on, but clearly its business model needs to change. Last year a group of “wise men” suggested creating an endowment to fund the IMF's expenses by selling some of its large gold stocks. Such a move requires the approval of the fund's member countries, which means a vote by America's Congress. Mr Strauss-Kahn, it seems, reckons he has a better chance of achieving that if the IMF develops its own cost-control plans quickly.

So the fund is downsizing. Some $100m is to be saved by getting rid of 380 staff, a reduction of around 15%. Preliminary documents obtained by *The Economist* suggest big cuts in most departments, and particularly among managers. Many departments, it seems, need to reduce their headcount of “B” level staff by 30-40%.

Addressing employees this week, Mr Strauss-Kahn said he hoped many departures would be voluntary. Few insiders think that is likely: the pay-offs, they moan, are too stingy, and with financial markets in turmoil, alternative employment options look grim. But for outsiders it is hard to resist a wry smile. The dispensers of fiscal rectitude are finally getting a taste of their own medicine.

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Insider trading

Too well connected

Feb 7th 2008 | HONG KONG
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One of Hong Kong's most plugged-in financiers settles with the SEC

IT WOULD be hard to find a better time to bury bad news in Hong Kong than the early hours of February 6th. The presses had already rolled for almost all of the newspapers coming out the next morning—the last before the Chinese New Year when Hong Kong in effect shuts down for a few days, and the talk around the dinner table turns for once to family matters as well as business.

In this atmosphere America's Securities and Exchange Commission (SEC) disclosed that insider-trading charges had been settled by David Li, a man at the centre of almost everything that matters in Hong Kong, who effortlessly straddles both the British and the Chinese establishments. Mr Li heads the largest locally owned financial institution, the Bank of East Asia, led the election campaign for the territory's current chief executive and has better access to powerbrokers in the legislative chamber than almost any other businessman. He also serves, or has served, on the board of numerous local and global companies including—until its recent acquisition by News Corp—Dow Jones, owner of the *Wall Street Journal*.

This directorship led to his costly brush with the SEC. After being informed of Rupert Murdoch's intention to offer a large premium to acquire Dow Jones last April, the SEC says Mr Li got on a flight to Shanghai with Michael Leung, another Hong Kong tycoon, and mentioned the pending takeover. Mr Leung informed his daughter, Charlotte Wong, and son-in-law, K.K. Wong, who then purchased $15m-worth of Dow Jones shares, only to sell the lot on May 4th, with an $8m profit, shortly after News Corp's offer was made public on May 1st.

The unusual size of the trade and the use of borrowed money to support it triggered an investigation by the SEC with the co-operation of Merrill Lynch, the main broker. By May 8th the SEC had filed an emergency case against the Wongs. Lengthy negotiations followed.

Mr Leung and his family agreed to pay $8.1m in disgorged profits and a similar amount in fines. Mr Li agreed to pay $8.1m as well. No one has admitted or denied guilt. The amount was not small, but in the past year alone Mr Li is reported to have made about $3m buying and selling a home, and his family's net worth is reckoned by *Forbes* to be $1.4 billion. For a man in his position, the most serious issue would have been sanctions blocking him from continuing in his political and corporate positions. These were not imposed.

The SEC gave no indication that Mr Li profited personally from the tip, which may have helped his case. However, its announcement contained a stern rebuke. “We hope this case sends a forceful reminder to corporate insiders that they need to exercise careful discretion when discussing important business matters outside the boardroom and executive suite,” said Linda Chatman Thomsen, head of the SEC's enforcement division.

That is clearly aimed at embarrassing Mr Li. It also serves as a warning to gossipy Hong Kong, where tips are not necessarily given with any hope of an immediate return—but obligations can build up over a lifetime of shared information.

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An idea for Lent

Carrot and stickK

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From The Economist print edition

How to help your good self to triumph over your bad self

WHEN two tubby graduate economics students at the Massachusetts Institute of Technology decided to lose some weight, they employed the profit motive to help them succeed. Dean Karlan promised to pay John Romalis $10,000 if he did not lose 38lb (17kg) by an agreed date. Mr Romalis made a similar pledge. If both failed, the one who failed by least would get $5,000. Happily, both succeeded in shedding pounds not dollars, and the initial deal was replaced with a “maintenance contract” which allowed either economist to show up unannounced to check the weight of the other and collect $5,000 for each pound over an agreed weight.

That was in 2002. Last month, a still slim Mr Karlan, now a professor at Yale, launched stickK.com, a company based on this contractual approach to achieving tough personal goals. It is based on Mr Karlan's beloved behavioural economics, which combines insights from psychology and economics to explain how people make decisions. The traditional rational economic model of decision-making cannot explain why people are tempted to do bad things in the short run (smoke, eat too much) that they know have long-term consequences they do not want (cancer, obesity). One behavioural-economics theory is that the (bad) short-term self does not give sufficient weight to the outcomes that the (good) long-term self values most.

StickK tries to change this by using the price mechanism to increase the short-run cost of ignoring those long-term intentions. Go to its website, and you can design a “commitment contract” that will impose an immediate cost if you fail.

For instance, you could commit yourself through stickK to give up smoking, or to reach a certain weight, by a particular date. As part of the typical contract, an independent referee must be appointed to monitor whether the goal has been reached and to inform stickK.

And if the contract is broken? There are various punishments to which stickK's clients can commit themselves. These range from the mild (having your failure publicised on its website) to the severe (forfeiting serious sums of money—to charity, not to stickK). In their contracts, clients can opt to pay in advance an amount of their choice into a stickK account. If they break the terms of their contract, this will go, according to their choice, to a preferred charity, a charity chosen by stickK, or, to make the incentive not to fail especially sharp, to a charity or cause they hate (within reason: the Ku Klux Klan, say, would be a step too far).

Mr Karlan and the co-founders of stickK, Ian Ayres, a law professor, and a young student entrepreneur, Jordan Goldberg, have already raised $1.2m from an angel investor. They aim to grow fast through online advertising, selling products that help clients achieve goals, and by doing deals with firms to design health programmes. Already, over 1,000 contracts have been signed, with combined penalties for failure of over $50,000. Who says that virtue doesn't pay?

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Economics focus

Chain of fools

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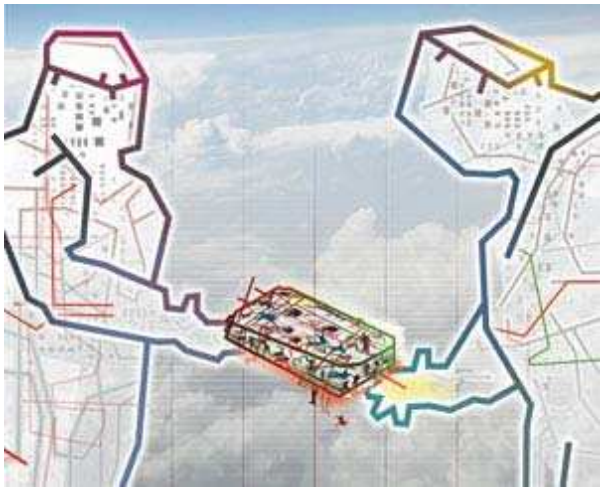
From The Economist print edition

Hard evidence that securitisation encouraged lax mortgage lending in America

Illustration by Jac



THERE is a growing consensus that loose credit and too-clever-by-half financial wizardry sowed the seeds of America's still-deepening economic malaise. One practice in particular has been singled out for censure—the bundling of loans into assets that could be sold on to investors. The charge is that by breaking the link between those who vet borrowers and those who bear the cost when they default, securitisation led to the lax lending that both fuelled and felled America's housing market.

Securitisation is not new, and decades of standardisation in areas such as mortgage finance, car loans and credit cards have removed many of its deficiencies. But new research* by Atif Mian and Amir Sufi of the University of Chicago's business school provides hard evidence that securitisation fostered “moral hazard” amongst mortgage originators, which led them to issue loans to uncreditworthy borrowers.

By examining local variations in housing and mortgage data, the authors were able to identify a causal link running from securitisation to increased credit supply, faster house-price growth and rising default rates. Their findings confirm what many suspected: poor screening by mortgage originators intent on selling on loans was a significant factor in the housing boom and bust.

The researchers' first task was to establish that the explosion of mortgage growth during the boom was down to easier access to credit. Using detailed data collected by government agencies in 3,000 zip-code districts, they were able to identify areas of pent-up demand by calculating the share of mortgage applications that had been turned down. They found that districts with the highest level of mortgage rejections in 1996, the benchmark year, were those where subsequently there was a disproportionately large increase in the rate of approved mortgages in the boom years between 2001 and 2005.

Could it have been that the economic prospects improved in these neighbourhoods, explaining the increase in the use of credit? That would suggest that more borrowers were better placed to repay a mortgage. No, the Chicago economists contend: they found that the places where it became easier to obtain a mortgage—what they call the “high latent-demand” zip codes—also saw declining income and employment growth compared with nearby districts.

Instead, their findings suggested that loans were increasingly made available to willing but marginal borrowers whose poor finances had previously locked them out of mortgage markets. The result is now patently obvious. Lending standards slipped and the borrowers were, on average, far more likely to default on their loans. The biggest increases in debt relative to income, a measure of default risk, were in high latent-demand neighbourhoods, the study says. And the avalanche of mortgage money did not just

lower credit quality; it also pushed up the price of houses. Prices rose more quickly in districts where mortgage supply had expanded most.

Behind the mushrooming supply of home loans lay the boom in securitisation. The share of new mortgages sold to investors—excluding loans packaged by government-sponsored mortgage companies, such as Fannie Mae and Freddie Mac—rose from less than a third to more than a half between 2001 and 2005. The increase was particularly prevalent in those districts where initially it had been hardest to obtain a mortgage—the same places where the supply of credit had picked up most and economic prospects had improved least.

The story so far could easily have been a happy one—for a few years, indeed, many Americans savoured the "democratisation" of housing finance that the boom engendered. This was, after all, what financial innovation was supposed to be about—by spreading risk around the system, it enabled more people who wanted mortgages to get them. Mortgage suppliers were seen as the vital links in a chain that brought lenders and borrowers together.

The weakest link

The ending, however, is more sinister than even many of the sceptics believed. The Chicago economists find strong evidence that the mortgage originators made bad matches between borrowers and lenders. Those areas where they were most willing to increase lending during the boom years have since seen the biggest rise in defaults. Moreover, the increase in default rates was greatest in districts where a larger proportion of mortgage loans were sold on within one year.

Worse, this negative link is most visible where the incentives to check on the creditworthiness of the borrowers were likely to be weakest. Loans securitised by the originators, or sold to non-bank financial firms probably for packaging, were far more likely to end up in default. Intriguingly the study shows that there were fewer defaults than average when loans were sold to an affiliate of the originator. (In sales to banks, the link to the default rate was negligible, though they are believed to have used better screening techniques.) Where the interests of originators and buyers were aligned, subsequent defaults were less likely.

The paper's authors acknowledge that their analysis might not constitute proof: other unseen factors could have affected the results. But a separate study† also shows securitisation has a lot to answer for. It finds that a loan portfolio that fits the criteria for securitisation is far more likely to default than a similar package of loans with a slightly lower credit score that is less likely to be securitised. It is a strong argument for requiring lenders to keep some "skin in the game"—or a share of the securitised bundle of loans on their books.

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* "The Consequences of Mortgage Credit Expansion: Evidence from the 2007 Mortgage Default Crisis"

† "Did Securitisation Lead to Lax Screening? Evidence from Subprime Loans 2001-2006" by Benjamin Keys, Tanmoy Mukherjee, Amit Seru and Vikrant Vig

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Demography and genetics

Kissing cousins, missing children

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A wider choice of mates reduces people's reproductive output. That may explain why families in rich countries are smaller than those in poor ones

Alamy

ONE of the biggest paradoxes in human biology is that as societies grow richer, people have fewer children. In most species, such an increase in available resources leads in the opposite reproductive direction. What makes the demographic transition, as this phenomenon is known, even more paradoxical is that in less developed times and places, the rich do not have smaller families than the poor.

Most explanations of the demographic transition are social. One school of thought emphasises reduced child mortality, suggesting this means that fewer “spares” need be generated to be sure that some children reach adulthood. Another points out that elderly people in rich countries do not depend on their children to look after them. A third suggests that as people are presented with more choices about how to spend their resources, they more often choose to consume things and experiences other than the joys and tribulations of parenthood. A fourth, somewhat more biological, posits that lavishing time and money on a few children, rather than spreading it around amongst many, produces adults who do better in the next-generation reproductive stakes. None of these ideas, though, is really satisfactory.

Now yet another explanation has been added to the pot. This is that the mixing-up of people caused by the urbanisation which normally accompanies development is, itself, partly responsible. That is because it breaks up optimal mating patterns. The demographic transition is thus, in part, a pure accident.

Love thy neighbour?

This suggestion is the corollary of a paper published in this week's *Science* by Agnar Helgason and his colleagues at deCODE Genetics, a firm based in Reykjavik. DeCODE's business depends on a unique resource—the entire population of Iceland, living and dead. The country's records since its founding by a few, intrepid Vikings are so good that the antecedents of today's inhabitants (apart from a handful of recent immigrants) are known with precision. On top of this, its medical records are also good, and most Icelanders have willingly given genetic samples to an endeavour which is seen to be beneficial to the country's economy as whole.

DeCODE hopes to translate this knowledge into money by understanding the genetic underpinning of diseases and hence developing diagnostic tools and drugs. On the way, however, it is generating a lot of additional scientific knowledge—of which this study is one example.

The study's principal finding is that the most fecund marriages are between distant cousins. Using

Iceland's genealogical records, which allow the degree of relatedness between husband and wife to be calculated with great precision, Dr Helgason showed the optimum degree of outbreeding (measured in terms of the number of children and grandchildren produced) lay somewhere between cousins of the third and fourth degrees.

Probably, the reason is that marriages between close relatives risk inbreeding depression (caused by individuals receiving two copies of broken genes from the same ancestor, but by different paths—one maternal and the other paternal). Outbreeding means this is unlikely to happen, and at least one functional copy of each gene will be received. But outbreed too far and other difficulties arise as genetic incompatibilities between the parents make reproduction harder. (A well-known example is the case of rhesus blood groups, when the mother's immune system may reject a fetus because of its father's genes.)

The optimal degree of outbreeding remained the same in every 25-year generation since 1800, although the overall number of children from marriages of every degree of relatedness did drop gradually over time—an observation that accounts for part of Iceland's demographic transition, and which probably has a social explanation. However, the level of outbreeding in Iceland has also increased markedly over that period, and Dr Helgason's findings suggest that this, too, drives down average family size measured over the whole population by reducing the number of third and fourth cousin marriages.

The strong relationship between kinship and fertility was so unexpected that the researchers have not yet calculated exactly how much it contributes to the demographic transition. But even from the figures they present, it is clearly an important factor, and one that is likely to apply in other parts of the world where the records needed to prove it are not so good. Even in poor countries, birth rates are now falling fast. An important part of the explanation may simply be the additional choice of mates that development and urbanisation bring with them.

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Evolution

Human races or human race?

Feb 7th 2008
From The Economist print edition

Genetically, people still look pretty much alike

SOME light was shone this week on the vexed question of the genetics of race in humans. Lluís Quintana-Murci and his colleagues at the Pasteur Institute, in Paris, published a study in *Nature Genetics* that looked at which genes have undergone recent natural selection at different rates in different parts of the world, and might thus contribute to any biological differences between races.

Given the fraught nature of the subject, the results are gratifyingly uncontroversial. Several of the differences Dr Quintana-Murci detected are in genes for the superficial racial markers of skin colour and hair form. Most of the others whose functions are known are connected either with diet or with resistance to disease.

Dr Quintana-Murci's data were drawn from a project called HapMap, which catalogues what are known as single-nucleotide polymorphisms, or SNPs. These are places where individual human genomes routinely differ from one another by a single genetic “letter”. If such a variation happens inside a gene, as opposed to occurring in part of the “junk” DNA that pads the genome out, the result can be a change of function of the gene in question—the raw material of evolution.

Applying various statistical techniques to the 2.8m SNPs so far catalogued by HapMap, Dr Quintana-Murci found 55 genes that showed evidence of having undergone significant localised evolution. Six controlled skin pigment and hair development. Four helped the immune system combat disease-causing organisms, such as malarial parasites, that are a problem in some places, but absent from others. A further six regulated metabolism in various ways, probably in response to the different diets enjoyed by different people. (Some of these genes are of wider interest as they are involved in obesity, diabetes and hypertension.) Nine others had various other jobs that were also of no political significance. All in all, the school of thought which holds that humans, for all their outward variety, are a pretty homogenous species received a boost.

There were, however, 30 locally selected genes whose functions are as yet unknown. And it is possible that others have been overlooked. This result promotes the brotherhood of man. But it is probably not the last word on the matter.

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Seismology

Plumbing the depths

Feb 7th 2008
From The Economist print edition

A new generation of mermaids looks at oceanic earthquakes

LIKE bats bouncing their shrieks off insect prey, geologists use the echoes of earthquakes to understand what the inside of the Earth is like. However, the ears they employ—known as seismometers—are mostly on dry land. And dry land is a mere third of the Earth's surface. To complete the picture, especially at the shallowest levels of the Earth's crust, it would help to have a network of seismometers at sea as well.

That is what Frederik Simons of Princeton University and his colleagues are proposing to create. To do so, they have designed and are now testing a device that they whimsically call a Mermaid (Mobile Earthquake Recorder in Marine Areas by Independent Divers).

Dr Simons's Mermaids would not, however, have sex-starved sailors leaping overboard to embrace them. They are torpedo-shaped machines packed with equipment intended to listen for the type of low-frequency sound waves that are generated by earthquakes.

To do that, they need to float near the sea floor, since most of an earthquake's energy travels through the rock rather than the water. So a Mermaid can operate at a depth of up to 1,500 metres (about a mile). When she hears something that might be pertinent, she runs the signal through her on-board computer to decide just how significant it really is. If it does turn out to be significant, she surfaces by pumping air into a bladder and makes contact with a satellite that has been co-opted into the project. Once she has delivered her message, the air is sucked back out of the bladder and she returns to her gloomy underwater station.

The main engineering problem Dr Simons faces—apart from making something that will work reliably in the salty ocean depths—is energy conservation. When a Mermaid runs out of power, she dies. That power is provided by lithium-ion batteries and is reckoned sufficient for between 50 and 100 surfacings.

One of the ways Dr Simons saves power is in the computer. The decision to surface is made by an algorithm that depends on a mathematical function called a wavelet. This divides an earthquake wave into separate components which can be studied independently. That allows the computer to restrict energy-intensive high-resolution analyses to those sections of the waves that really need it. The other sections receive a more cursory (and thus less power-consuming) glance.

At $15,000 a pop, a Mermaid is not outrageously expensive. A few million dollars would buy a network that could cover an ocean. That would unlock many of the Earth's secrets, including how much heat is transferred from the inside of the planet to the outside and exactly how mid-ocean volcanoes like those in Hawaii are formed. Such knowledge may not be everyone's idea of sunken treasure, but it would have great value to those who struggle to understand how earthquakes are caused.

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Self-generated energy

Power from the people

Feb 7th 2008
From The Economist print edition

Now you can recharge things just by walking around

Illustration by David Simonds

IN THE early 1990s, an inventor called Trevor Baylis came up with an idea that provoked the sort of smirking disbelief journalists usually reserve for those who have spent too long in their garden sheds. But the smirkers were wrong. Mr Baylis's clockwork radio turned out to be a great success in places where batteries are expensive and mains electricity is non-existent. In the latest versions, the crank charges a battery directly, rather than winding up a spring which then turns a small dynamo. A few minutes' handle-turning can provide an hour's reception.

Wind-up radios have turned into consumer products in rich countries too, along with wind-up torches, wind-up mobile-phone chargers and wind-up music players. But all these gadgets rely on people having to do some specific work in return for their entertainment. Hence the appeal of finding a way of extracting power from everyday activities without the user noticing what was going on—rather like an old-fashioned self-winding watch, but on a grander scale. There have been several attempts to do this in the past, from trainers that absorb power from the pounding of a foot on a pavement to backpacks that generate it from the bobbing motion of the load while the wearer walks. None, though, has really taken off. But the latest idea might, as it is a human version of a popular idea in car design—regenerative braking.

The “energy harvester” that Max Donelan of Simon Fraser University and his colleagues describe in this week's *Science* looks like an orthopaedic knee-brace. It tucks behind its wearer's knee and has extensions that strap around the front of his calf and his thigh. When the wearer walks, the knee's motion drives a set of gears which turn a small generator.

On the face of it, that sounds like a recipe for making walking difficult. Surprisingly, it is not. Although the leg muscles perform “positive” work when they accelerate the leg forward to begin a step, when the leg straightens at the end of the step they perform “negative” work as they slow the leg down. If the generator in the harvester were connected during the accelerating phase the process would, indeed, be expected to increase the load on the muscles. But if it were connected only during the decelerating phase it would impose no load. It might even make things easier.

To test this idea, Dr Donelan recruited six volunteers, attached harvesters to their knees and put them on a treadmill. With the generators in the harvesters engaged all the time, walking produced seven watts of power. When the generators were engaged only during deceleration, however, they produced almost five watts (enough to power ten mobile phones simultaneously). Moreover, in that second case, the amount of extra energy used by walkers wearing the harvesters was insignificant, since the harvesters were absorbing energy that would otherwise be dissipated as heat—which is exactly the principle used by regenerative braking in a petrol-electric hybrid car.

One use for the harvesters, if they could be made cheaply (and people could be persuaded to wear them routinely), would be to charge up batteries. But Dr Donelan also has more sophisticated applications in mind. He thinks energy harvesters could be used to power robotic artificial joints and might even, one day, be implanted within muscles for that purpose.

A green light

Even the quotidian uses of an energy harvester like Dr Donelan's will, however, be enhanced by other advances in the field. Rechargeable batteries are getting smaller, lighter and more powerful. They may eventually be replaced in some applications by ultracapacitors that can charge up and discharge even faster than a battery. More efficient cranking systems and generators are also under development. And the miniaturisation of electronics continues to reduce power demands.

One of the biggest changes has been the use of light-emitting diodes (LEDs). This has transformed wind-up lighting products, says Rory Stear, chairman of Freeplay Energy, which specialises in such “self-powered” devices. The company's Indigo lantern, for instance, can provide up to two hours of light from just one minute of winding. LEDs also last for a long time: those in the Indigo are rated for 100,000 hours, whereas a filament bulb might burn out after 16 hours.

Such products can make a huge difference to power-starved people. Freeplay's charitable foundation reckons that the use of kerosene, candles and firewood for lighting absorbs 10-15% of monthly household incomes in sub-Saharan Africa. It is planning to test a range of wind-up LED lanterns in Kenya and South Africa this year. These, it hopes, will allow people to do things like studying at night, increasing their security and coping better with medical emergencies. Freeplay Energy is also developing self-powered medical equipment, including a fetal-heart monitor.

Mr Stear says people in poor countries are prepared to work hard for their energy, with wind-up lanterns often passed among family members to help power them. That bodes well for Dr Donelan's idea, if it can be mass-produced. But the ability of such devices to save on batteries and to serve as reliable standby devices could make them popular even in Western markets as their performance gets better. Save the planet by walking to work and powering up your iPod at the same time. What more could a Green want?

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The Richard Casement internship

Feb 7th 2008
From The Economist print edition

We invite applications for the 2008 Richard Casement internship. This is for a would-be journalist to spend three months of the summer working on the newspaper in London, writing about science and technology. Our aim is more to discover writing talent in a science student or scientist than scientific aptitude in a budding journalist. Applicants should write a letter introducing themselves, along with an original article of about 600 words that they think would be suitable for publication in the science and technology section. They should be prepared to come for an interview in London or New York, at their own expense. A small stipend will be paid to the successful candidate. Applications must reach us by February 22nd. They should be sent to: casement2008@economist.com

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The future of Asia

Eastern approaches

Feb 7th 2008
From The Economist print edition

Illustration by Daniel Pudles

Kishore Mahbubani makes some sensible recommendations on how Asia's growing power might be managed. But his other arguments are far less convincing

WHEN you have spent your long diplomatic career listening to lectures by arrogant Americans and Europeans about how others should run their countries and that the West is best, it must be tempting to try to get your own back. That is what Kishore Mahbubani, who in the 1980s and 1990s was Singapore's and probably Asia's best-known diplomat, is doing in his new book, “The New Asian Hemisphere”.

Mr Mahbubani is now dean of the Lee Kuan Yew School of Public Policy at the National University of Singapore, and prefers the title of professor to ambassador, but this is no dry scholarly tome. It is an anti-Western polemic, designed to wake up Americans and Europeans by making them angry. In that goal, it will certainly be successful.

Interestingly, the author ascribes the success of Asian economies to their adoption of “seven pillars of Western wisdom”, so he does give some credit to the West. These are free-market economics; science and technology; meritocracy; pragmatism; a culture of peace; the rule of law; and education. Japan led the way in the late 19th century in realising the need to learn from the West if it was to avoid being colonised by it. South Korea and Taiwan followed in the 1960s and 1970s, along with Hong Kong and Singapore. Finally China and India saw the light in, respectively, the 1980s and 1990s. Since Asia has succeeded by emulating the West, why, asks Mr Mahbubani, is the West not celebrating?

Isn't it? What about all those business people flocking on aircraft to India and China? Mr Mahbubani offers no evidence for his assertion that the West is unhappy about Asian success. His answer to his own question is that the West—by which he means America and western Europe, plus Australia, Canada and New Zealand, and, more controversially, Japan—has become so used to dominating and controlling the world to serve its own interests that it has ceased to recognise even that it does so. “If you deny you are in power, you cannot cede power,” he argues.

The New Asian Hemisphere: The Irresistible Shift of Global Power to the East
By Kishore Mahbubani

PublicAffairs; 336 pages; $26 and £15.99

Buy it at
Amazon.com
Amazon.co.uk

Mr Mahbubani also contrasts “Western incompetence” with “Asian competence”: the world would be better run if Asians had a bigger role, though the West, he says, may try to stop that from happening. Ultimately, the rise of Asia may force the West to cede power, but it is not going to do so gracefully. As a result, there is a serious risk of an anti-Western backlash.

The first problem with this argument is shown by Mr Mahbubani's inclusion of Japan as a Western economy. That is not the way things felt during the 1980s, when what was meant by “the shift of power to Asia” was the rise of Japan. It also suggests that his definition of Western is really just “rich”: surely, as other Asian countries become rich, they too will become part of the rich ruling elite of the world, just as Japan did during the 1970s and 1980s. China and India are already invited as observers at the main rich-country summit, the G8, and it can only be a matter of time before they become full members.

The second problem is a bigger one. To arrive at his conclusion that the West is incompetent and Asia competent, Mr Mahbubani has to use a rather distorted view of recent history. When citing the debacle in Iraq he is, of course, shooting at a lame and sitting duck. But his other evidence is much weaker: the West's failure to maintain the global nuclear non-proliferation regime; the failure to prevent genocide in Rwanda and war in the Balkans; and the failure of the Doha round of global trade-liberalisation talks.

It is certainly lamentable that the nuclear non-proliferation regime has been crumbling. But whose fault is that? Of the four new nuclear-weapons states that have emerged in recent decades, three have been Asian—India, Pakistan and North Korea. Two of those—Pakistan and North Korea—attained their nuclear status with a technological helping hand from China, a country Mr Mahbubani rates as being run by peace-mongering geopolitical geniuses.

America and western Europe should certainly be criticised for failing to avert the terrible events in Rwanda and the Balkans. Mr Mahbubani's argument is also, however, that Asia has been much better at keeping the peace in its region. This view can be sustained only if you ignore the recurrent conflicts between India and Pakistan over Kashmir, and the civil war in Sri Lanka, as well as Asia's closest parallel to the former Yugoslavia, which is Indonesia. Neither China nor the Association of Southeast Asian Nations (ASEAN), which Mr Mahbubani lauds as far more successful diplomatically than the European Union, did anything to prevent the bloodshed in the then East Timor as it sought to separate itself from Indonesia, nor the bloodshed in Aceh, which failed to do so. In that, Asia's failure was just as big as that of the EU in the Balkans.

And the Doha round? A newspaper that was founded 165 years ago to campaign against farm protectionism cannot but join Mr Mahbubani in condemning the EU and America for clinging on to their farm subsidies and trade barriers, which have blocked progress in Doha. But Japan and South Korea are also big farm protectionists, and India has helped thwart Doha by its resistance to broader trade liberalisation. The blame should be as global as trade itself.

Mr Mahbubani's Asian triumphalism is as futile and unconvincing as the Western triumphalism he deplores. That is a shame, as the recommendations he makes for how world governance should be improved are sensible: Chinese and Indian membership of the G8; an end to American and European hogging of the top jobs at the IMF and the World Bank; reform of the UN Security Council to give permanent, veto-holding status to more Asian countries. All are regularly made by Western intellectuals too, even though he claims such minds are determined to maintain the supremacy of the West.

The New Asian Hemisphere: The Irresistible Shift of Global Power to the East.
By Kishore Mahbubani.
PublicAffairs; 336 pages; $26 and £15.99

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Genetic engineering

Conceiving the future

Feb 7th 2008
From The Economist print edition

PREPARE to enter the era of directed human evolution, says Ronald Green, a bioethicist and seasoned scientific observer, in his new book, “Babies by Design”, which came out in America last November and is now being published in Britain. In the very near future scientists will be snipping and splicing the DNA in human eggs, sperm and embryos, not only fixing faulty genes but adding enhancements too. Soon, we may be able to eradicate terrible genetic diseases such as Tay-Sachs and cystic fibrosis. We may be able to make our children more resistant to disease than we are—as well as wiser, stronger, longer-lived and more beautiful.

The promise is clear; the risks, scarcely less so. That one scientific slip could mean the creation of a whole new genetic illness is only the most obvious. By rewriting our own operating instructions we will be changing our relationship with the world around us, and each other. Will children become mere consumer goods? Will they suffer under the weight of too high expectations—or be rejected if they turn out to lack the traits their parents paid for? Will the rich get the best upgrades and abandon any sense of a shared human condition? Will we cease to be human altogether?

Babies by Design: The Ethics of Genetic Choice
By Ronald M. Green

Yale University Press; 288 pages; $26 and £18.99

Buy it at
Amazon.com
Amazon.co.uk

In this clear-eyed and generally optimistic book, both promise and risk are ably weighed and balanced. The science is clearly explained, and there are signposts to help guide us through the moral maze. The future as imagined in science fiction is mined for clues: interstellar genetic engineers; pod-gestated babies; secret government research laboratories; total war between the “genobility” and the unenhanced rump of humanity.

Mr Green argues convincingly that many opponents of genetic enhancement are suffering from “status-quo bias”: the belief that the way things are is the best way they could be. Those who lament, for example, that life extension will undermine marriage (imagine committing to a century together) forget that advances in public health added three decades to American lifespans in the 20th century.

He addresses some difficult questions. How much risk should a parent be allowed to take on behalf of a child? What should we do if parents want to eliminate homosexuality in their offspring, or if black parents seek children with lighter skin? What about parents who want odd, or dangerous, adaptations—children with high red-blood-cell counts who could be super-athletes, say, but could also have a far higher risk of heart disease?

Mr Green offers some guiding principles. Genetic interventions should be considered only if they are in what would reasonably be regarded as the child's best interests and about as safe as IVF. Those that offer only positional advantage should be discouraged. Since legislation is likely to lag behind the science and to be too heavily influenced by status-quo bias, “wrongful life” lawsuits, in which children sue foolhardy parents and the scientists who humoured them, will become the main check on the new technology. Of the vertigo-inducing glimpses of the future on offer in this book, this is perhaps the most terrifying.

Babies by Design: The Ethics of Genetic Choice.
By Ronald M. Green.
Yale University Press; 288 pages; $26 and £18.99

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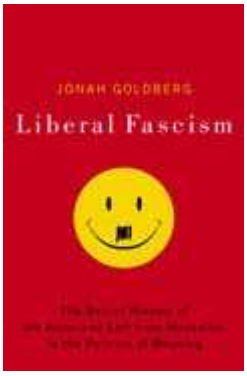
Amazon worldwide bestsellers

Heavy hitters

Feb 7th 2008
From The Economist print edition

American political books on hubris, ideology and greed—and hating Hillary



JONAH GOLDBERG'S “Liberal Fascism” enjoyed four postponements, a change of subtitle and a lorry load of advance hate-mail before it was finally published a month ago. But the wait was worth it; in January it became America's biggest-selling political book.

For anyone willing to give Mr Goldberg a chance, his (odd) central thesis is that American liberalism, more than conservatism, has roots in the fascism of pre-war Europe. Fascism was an international movement that took different forms in different countries. In Germany it turned rapidly into a genocidal racist nationalism; in America, he says, it took on a more friendly, liberal form.

Adolf Hitler was a vegetarian and Heinrich Himmler an animal-rights activist. Does that mean all Democrats are Nazis? No, probably not, though the Hillary-haters love Mr Goldberg's book anyway. After all, back when she still seemed a shoo-in to the White House, his subtitle for “Liberal Fascism” was “The Secret History of the American left, From Mussolini to Hillary Clinton”.

Worrying about America

1. Liberal Fascism: The Secret History of the American Left, from Mussolini to the Politics of Meaning
by Jonah Goldberg

Click to buy from Amazon.com or Amazon.co.uk

2. Memo to the President Elect: How We Can Restore America's Reputation and Leadership
by Madeleine Albright

Click to buy from Amazon.com or Amazon.co.uk

3. Independents Day: Awakening the American Spirit
by Lou Dobbs

Click to buy from Amazon.com

4. America Alone: The End of the World as We Know It
by Mark Steyn

Click to buy from Amazon.com or Amazon.co.uk

5. Day of Reckoning: How Hubris, Ideology, and Greed are Tearing America Apart
by Patrick J. Buchanan

Click to buy from Amazon.com

6. The Assault on Reason
by Al Gore

Click to buy from Amazon.com or Amazon.co.uk

7. Power to the People
by Laura Ingraham

Click to buy from Amazon.com or Amazon.co.uk

8. We the People: An Introduction to American Politics
by Benjamin Ginsberg, Theodore J. Lowi and Margaret Weir

Click to buy from Amazon.com or Amazon.co.uk

9. Comeback: Conservatism That Can Win Again
by David Frum

Click to buy from Amazon.com or Amazon.co.uk

10. American Government and Politics Today: The Essentials, 2007
by Barbara A. Bardes, Steffen W. Schmidt and Mack C. Shelley

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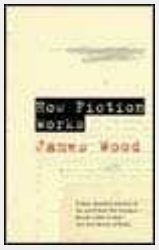
Fiction

Self-knowledge and self-help

Feb 7th 2008
From The Economist print edition

REALISTIC fiction is really a sleight-of-hand. Too often, discovering the prosaic artifice behind a magic trick ruins one's pleasure in the show. Yet James Wood's enchanting new book, “How Fiction Works”, analyses how novelists pull rabbits from hats—and he still makes the feat seem like magic.

How Fiction Works
By James Wood



Farrar, Straus and Giroux; 282 pages; $24.
Jonathan Cape; £16.99

Buy it at
Amazon.com
Amazon.co.uk

An esteemed British critic who now teaches at Harvard University and writes for the *New Yorker*, Mr Wood has put together a deft, slender volume about literary technique, his playful exuberance wonderfully at odds with the dry, jargon-strewn tradition of academic criticism. Mr Wood makes no claim to be thorough; he has restricted himself to citations available in his personal library. Nor does he attempt to be methodical; chapters proceed higgledy-piggledy in tiny numbered sections. But few books about novel-writing provide such insights into the craft, or revel so joyfully in well-rendered fiction.

Mr Wood identifies as “free indirect style” (also known as third person limited) the means by which an author both inhabits the minds of characters and supplies their perceptions with an eloquence beyond their ken. Thus we can “see through a character's eyes while being encouraged to see more than the character can see”. The critic calls attention to the way novelists slip sneakily in and out of their own prose, here speaking as a character, there pulling back the veil and revealing the voice of the author. The distinction can be exquisitely subtle, the writer showing his hand in just a single word.

“How Fiction Works” takes on the creative-writing holy grail of the telling detail, or worse, the not-especially-telling detail included for form's sake; “4 Willow Road” seems more “real” with the number included, although the “4” tells us nothing about the house. “I choke on too much detail,” Mr Wood despairs, “and find that a distinctly post-Flaubertian tradition fetishises it.” Yet he concedes, “Is specificity in itself satisfying? I think it is.” He relishes the “thisness” of any detail that “centres our attention with its concretion”, like the yellow wax from the dance floor left on Emma Bovary's satin slippers.

Mr Wood challenges a host of conventions. He mocks the expectation that characters should “grow” and “develop”, and should be “nice”. “A glance at the thousands of foolish ‘reader reviews' on Amazon, with their complaints about ‘dislikeable characters', confirms a contagion of moralising niceness.” He questions the whole construct of character both in books and outside them, and—the horror—defends the mixed metaphor. He examines the very convention of conventions, predicting ultimate defeat for any iconoclast who would defy them. For the instant you violate one convention, you create another begging to be broken: “Convention is everywhere, and triumphs like old age: you either die of it, or with it.”

His text is rich with examples, snatched from both classic writers (Charles Dickens and Fyodor Dostoyevsky) and contemporary ones (John Updike, David Foster Wallace and Philip Roth). The book abounds in footnoted anecdotes, some included just for fun—like the literary routine ascribed to A.C. Benson, a minor English writer: “That he did nothing all morning and then spent the afternoon writing up what he'd done in the morning.”

Despite Mr Wood's slash-and-burn reputation, his examples are largely admiring. With only a handful of exceptions, he chooses to lead by being positive, rather than holding poor passages up to ridicule. The result is deliciously celebratory.

This is not a crude commercial how-to, such as Oakley Hall's 2001 book with the same title, “How Fiction Works: Proven Secrets to Writing Successful Stories that Hook Readers and Sell”. Witty, concise, and composed with a lovely lightness of touch, Mr Wood's “How Fiction Works” should delight and enlighten

practising novelists, would-be novelists and all passionate readers of fiction.

How Fiction Works.
By James Wood.
Farrar, Straus and Giroux; 282 pages; $24.
Jonathan Cape; £16.99

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Alexander Rodchenko

Pictures and pain

Feb 7th 2008
From The Economist print edition

How an avant-garde Russian master influenced generations of photographers

ALEXANDER RODCHENKO was a well-known Moscow painter when, at the age of 33 in 1924, he took up photography. Within a year his dramatic manipulations of perspective were attracting international notice. By 1928 Alfred H. Barr, soon to become director of the Museum of Modern Art in New York, was paying him a visit.

Rodchenko's techniques were so strikingly original they became synonymous with his name. Extreme foreshortening, shooting on the diagonal, straight down from a considerable height or straight up from the ground—all these are known to this day as "Rodchenko angles".

His influence on generations of photographers began almost at once, as can be seen in the work of Andre Kertesz, who was then living in Paris, and, not long after, in that of Margaret Bourke-White, in New York. Today one measure of Rodchenko's stature is the price his work fetches. An unusually large original print of the 1924 portrait of his friend, Vladimir Mayakovsky, a Russian poet, comes up for auction in May with an estimate of £100,000-150,000 ($197,000-295,500).

Now, a major exhibition of Rodchenko's work has opened in London. It is sponsored by Roman Abramovich, the billionaire owner of Chelsea Football Club and a supporter of the Moscow House of Photography Museum whose director, Olga Sviblova, is the curator of this show.

Alexander Rodchenko

Taking it on the chin

The 120 works on display date from between 1922 and 1940, when Rodchenko got his last big commission, and are arranged thematically. The exhibition begins with the bold, playful photomontages which were his bridge from painting to photography. Many were advertisements commissioned by state-owned enterprises like the GUM department store. They combined cut-outs of already published images and typography with photographs, initially taken by others, that had often been specially staged. In one, the face of his friend, Osip Brik, a literary critic, has the word LEF ("left") filling the right lens of his glasses. This was also an acronym for the "Leftist Front for Artists", the Constructivist magazine for which Rodchenko, a founding member of the Constructivist group, made every cover.

In 1922 the Constructivists issued a manifesto calling for the defeat of art, which they regarded as the enemy of technology. Their aim was to use media and materials in new ways in order to improve everything from buildings and transport to dishes and galoshes. They believed this would produce a better life for all, a goal they shared with much of the international avant-garde and, they thought, with the Soviet government.

A photograph of Rodchenko, taken in the year the manifesto came out, shows a vigorous, handsome man in full combat dress. His "production suit", a sturdy yet stylish all-in-one with numerous pockets for tools, was designed by his wife andfellow Constructivist, Varvara Stepanova.

Rodchenko's first photographs were often of friends and family. Although relatively conventional in their technique, some are deeply moving; above all the 1924 close-up of his 59-year-old mother reading. This, one of Rodchenko's earliest and most commonly reproduced images, shows Olga Paltusova holding a lens of her folded, wire-framed glasses to one eye. A washerwoman, she had been illiterate until only a few years before. However much Rodchenko valued technology, mathematics and science, he was also a

romantic with a theatrical streak and he quickly discovered a way to make science and art into allies, not enemies.

Rodchenko's photographic inventions are the heart of the show. This is the work for which he became and remains famous. The extreme foreshortening of his 1925 “Fire Escape”, for example, shot from below, shows a fellow climbing on a ladder. But is the ladder rising and the man climbing—or is it horizontal and the man walking across it, hovering, like a giant spider, directly above the viewer's face? Another arresting image, “Pioneer with a Trumpet” from 1930, is a close-up seemingly shot from directly under the youth's chin.

Rodchenko, who thought that teaching people new ways of seeing would make them open to new ways of thinking, believed that his experiments supported the government's goals. Those in power disagreed. Soviet youth should look happy and robust, not misshapen, they said. Rodchenko was attacked as a “petty-bourgeois formalist”. His teaching work and commissions vanished, and with that his income.

The remainder of the show is made up of images taken between 1930 and 1940 and can be read as the biography of Rodchenko's efforts to rehabilitate himself. He became a photo-reporter, initially concentrating on movement, and made studies of horse-racing and mass demonstrations of gymnastics.

In 1933 Rodchenko managed to get a commission to document the construction of the White Sea-Baltic Canal. He took a series of harrowing photographs of ragged men who look as if they are freezing to death. Again the authorities were not pleased. By the time the visitor comes to the 1937 soft-focus ballet scenes and the 1939 views of acrobats and sea lions, it seems as if Rodchenko, having lost the battle to unite his art with Soviet aims, had escaped into a childlike dream world.

In 1943, after two decades of work devoted to the contrary belief, he wrote: “Art must be separate from politics.” Rodchenko died poor and obscure. But he left behind 20,000 annotated negatives and countless exhibition-quality prints. The efforts his heirs have made to protect—and share—his extraordinary archive have been instrumental in keeping his name alive. Rehabilitation has come, if posthumously. In 2006, 500,000 people visited the Moscow House of Photography Museum's exhibitions marking the 50th anniversary of Rodchenko's death. Thanks to Russian support and curating, a new audience will now see Rodchenko's achievements in the city some people like to call Moscow-on-Thames.

“Alexander Rodchenko: Revolution in Photography” is at the Hayward Gallery, London, until April 27th

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Peter Doig

In the woods

Feb 7th 2008
From The Economist print edition

Tate Britain showcases a modern master of landscapes

IF PETER DOIG is famous, it is for a painting called “White Canoe” (pictured below) that was sold by Sotheby's last year for £5.7m ($11.2m), then a record for a living European artist. Now Tate Britain is giving him a one-man show. It ought to make his paintings as well known as his prices.

Mr Doig is fairly young (48); he is British and an artist, but he is not a Young British Artist (YBA). There are no medicine cabinets or unmade beds—as in pieces by Damien Hirst or Tracey Emin—or any anarchic reworking of old masterpieces. Instead, his work is unpredictable, colourful and done almost entirely in heavily worked oil paint. Among 45 large canvasses, together with 61 smaller oils and works on paper, there is an oddly compelling painting, entitled “Lapeyrouse Wall”, of a solitary man with an umbrella. Its dreamlike realism recalls Edward Hopper, which is unusual because the rest of the show reminds you only of Peter Doig.

Sotheby's

Mr Doig was born in Edinburgh and lived in London for 23 years. Mostly, though, he was a travelling man; he grew up in Canada and has lived for the past six years in Trinidad. His Canadian paintings were done in London, and he drew on a variety of sources. The canoe, which features in many of his pictures, is a haunting image from a 1980 horror film, “Friday the 13th”.

Other primitive memories were a hangover from teenage experiments with LSD, such as “Blotter”, which in 1993 won Britain's most prestigious painting award, the John Moores prize. In it, a lonely figure standing on a frozen pond is reflected vividly in shallow water, an effect the artist contrived himself by pumping water onto the ice. Mr Doig's Canada is a cold, wet, sad place, and the screen of snow in “Cobourg 3 + 1 More” gives a simple landscape of a river and trees a patina of abstraction. You wonder why people live there.

In his pictures of Trinidad the sea is warm and the foliage tropical. To start with, the colours are richer and the subjects more various. The latest paintings are larger, more abstract, and the colour more monochrome, such as in a mysterious piece titled “Man Dressed as a Bat”. The canoe also retains its central place, except that the empty vessel in the Canadian paintings is now crowded with six passengers.

There is one respect, however, in which Mr Doig is like the YBAs. “White Canoe” was one of seven paintings by this artist that Charles Saatchi sold to Sotheby's in 2006 for £11m. Mr Doig is still trying to come to terms with the price put on his work. His accomplished Tate show ought to help him do so.

“Peter Doig” is at Tate Britain, London, until April 27th. The show then moves on to the Musée d'Art Moderne de la Ville de Paris from May 29th to September 7th, and afterwards to the Schirn Kunsthalle Frankfurt from October 9th 2008 to January 4th 2009

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Marie Smith

Feb 7th 2008
From The Economist print edition

Marie Smith, the last speaker of the Eyak language, died on January 21st, aged 89

Corbis

BEYOND the town of Cordova, on Prince William Sound in south-eastern Alaska, the Copper River delta branches out in silt and swamp into the gulf. Marie Smith, growing up there, knew there was a particular word in Eyak, her language, for the silky, gummy mud that squished between her toes. It was *c'a*. The driftwood she found on the shore, *'u'l*, acquired a different name if it had a proper shape and was not a broken, tangled mass. If she got lost among the flat, winding creeks her panicky thoughts were not of north, south, east or west, but of “upriver”, “downstream”, and the tribes, Eskimo and Tlingit, who lived on either side. And if they asked her name it was not Marie but *Udachkuqax*a'a'ch*, “a sound that calls people from afar”.

Upriver out of town stretched the taiga, rising steadily to the Chugach mountains and covered with black spruce. The spruce was an Eyak dictionary in itself, from *lis*, the neat, conical tree, to *Ge.c*, its wiry root, useful for baskets; from *Gahdg*, its blue-green, flattened needles, which could be brewed up for beer or tea, to *sihx*, its resin, from which came pitch to make canoes watertight. The Eyak were fishermen who, thousands of years before, were thought to have crossed the Bering Strait in their boats. Marie's father still fished for a living, as did most of the men in Cordova. Where the neighbouring Athapaskan tribes, who had crossed the strait on snowshoes, had dozens of terms for the condition of ice and snow, Eyak vocabulary was rich with particular words for black abalone, red abalone, ribbon weed and tubular kelp, drag nets and dipping nets and different sizes of rope. One word, *demexch*, meant a soft and treacherous spot in the ice over a body of water: a bad place to walk on, but possibly a good one to squat beside with a fishing line or a spear.

This universe of words and observations was already fading when Marie was young. In 1933 there were 38 Eyak-speakers left, and white people with their grim faces and intrusive microphones, as they always appeared to her, were already coming to sweep up the remnants of the language. At home her mother donned a *kushsl*, or apron, to make cakes in an *'isxah*, or round mixing bowl; but at school “barbarous” Eyak was forbidden. It went unheard, too, in the salmon factory where Marie worked after fourth grade, canning in industrial quantities the noble fish her people had hunted with respect, naming not only every part of it but the separate stems and shoots of the red salmonberries they ate with the dried roe.

As the spoken language died, so did the stories of tricky Creator-Raven and the magical loon, of giant animals and tiny homunculi with fish-spears no bigger than a matchstick. People forgot why “hat” was the same word as “hammer”, or why the word for a leaf, *kultahl*, was also the word for a feather, as though deciduous trees and birds shared one organic life. They lost the sense that lumped apples, beads and pills together as round, foreign, possibly deceiving things. They neglected the taboo that kept fish and animals separate, and would not let fish-skin and animal hide be sewn in the same coat; and they could not remember exactly why they built little wooden huts over gravestones, as if to give more comfortable shelter to the dead.

The end of the world

Mrs Smith herself seemed cavalier about the language for a time. She married a white Oregonian, William Smith, and brought up nine children, telling them odd Eyak words but finding they were not interested. Eyak became a language for talking to herself, or to God. Only when her last surviving older sister died, in the 1990s, did she realise that she was the last of the line. From that moment she became an activist, a tiny figure with a determined jaw and a colourful beaded hat, campaigning to stop clear-cutting in the forest (where Eyak split-log lodges decayed among the blueberries) and to get Eyak bones decently buried. She was the chief of her nation, as well as its only full-blooded member.

She drank too much, but gave it up; she smoked too much, coughing her way through interviews in a room full of statuettes of the Pillsbury Doughboy, in which she said her spirit would live when she was dead. Most outsiders were told to buzz off. But one scholar, Michael Krauss of the University of Alaska at Fairbanks, showed such love for Eyak, painstakingly recording its every suffix and prefix and glottal stop and nasalisation, that she worked happily with him to compile a grammar and a dictionary; and Elizabeth Kolbert of the *New Yorker* was allowed to talk when she brought fresh halibut as a tribute. Without those two visitors, almost nothing would have been known of her.

As a child she had longed to be a pilot, flying boat-planes between the islands of the Sound. An impossible dream, she was told, because she was a girl. As an old woman, she said she believed that Eyak might be resurrected in future. Just as impossible, scoffed the experts: in an age where perhaps half the planet's languages will disappear over the next century, killed by urban migration or the internet or the triumphal march of English, Eyak has no chance. For Mrs Smith, however, the death of Eyak meant the not-to-be-imagined disappearance of the world.

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Overview

Feb 7th 2008
From The Economist print edition

Fresh evidence emerged that **America's economy** is floundering. The Institute for Supply Management's index of non-manufacturing activity plummeted from 54.4 to 41.9 in January. American employers, excluding farms, cut 17,000 workers from their payrolls, the first fall since August 2003. The unemployment rate, which had spiked up from 4.7% to 5% in December, edged down to 4.9%. There were signs too that the credit crisis has made bank loans harder to come by. According to the Federal Reserve's survey of senior loan-officers, lending standards have tightened significantly over the past three months.

Concerns about high inflation prompted **Australia's** central bank to raise its benchmark interest rate by a quarter of a percentage point to 7%, the highest since October 1996. The bank's governor said the economy would probably need to cool quickly to tame price pressures.

Retail sales in the **euro area** fell by 0.1% in December, the third consecutive monthly decline. The string of poor figures meant that sales were 1% lower in the fourth quarter than in the previous three months.

Industrial production in **Spain** fell by 0.3% in the year to December.

The euro area's economy will grow more quickly than America's this year, according to *The Economist*'s **monthly poll of forecasters** (see article). Soothsayers trimmed their forecast for GDP growth in America from 1.8% to 1.6%.

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Output, prices and jobs

Feb 7th 2008
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	rate‡, %
United States	+2.5 Q4	+0.6	+1.6	+2.5	+1.5 Dec	+4.1 Dec	+2.5	+2.9	4.9 Jan
Japan	+1.9 Q3	+1.5	+1.3	+1.8	+0.7 Dec	+0.7 Dec	+0.3	+0.6	3.8 Dec
China	+11.2 Q4	na	+10.1	+9.6	+17.4 Dec	+6.5 Dec	+2.8	+3.5	9.5 2007
Britain	+2.9 Q4	+2.4	+1.7	+2.1	+0.4 Nov	+2.1 Dec§	+3.0	+2.3	5.3 Nov††
Canada	+2.9 Q3	+2.9	+1.7	+2.4	+0.7 Nov	+2.4 Dec	+1.7	+1.8	6.0 Dec
Euro area	+2.7 Q3	+2.8	+1.8	+1.9	+2.7 Nov	+3.2 Jan	+1.8	+2.4	7.2 Dec
Austria	+3.3 Q3	+3.0	+2.5	+2.5	+1.1 Nov	+3.6 Dec	+1.5	+2.3	4.3 Dec
Belgium	+2.6 Q3	+2.2	+1.9	+2.0	+3.2 Nov	+3.5 Jan	+1.7	+2.3	10.8 Dec‡‡
France	+2.2 Q3	+3.2	+1.7	+1.9	+2.5 Nov	+2.6 Dec	+1.5	+2.2	7.9 Q3§§
Germany	+2.5 Q3	+2.8	+1.8	+2.0	+3.5 Nov	+2.7 Jan	+1.6	+2.1	8.1 Jan
Greece	+3.8 Q3	+3.6	+2.4	+2.5	+3.6 Nov	+3.9 Dec	+2.9	+3.3	7.9 Oct
Italy	+1.9 Q3	+1.7	+1.2	+1.5	−2.4 Nov	+2.9 Jan	+1.7	+2.4	5.9 Q3
Netherlands	+4.2 Q3	+7.5	+2.0	+2.1	+1.8 Nov	+1.9 Dec	+1.3	+2.1	4.1 Dec††
Spain	+3.8 Q3	+2.9	+2.4	+2.4	−0.3 Dec	+4.2 Dec	+2.7	+3.2	8.6 Dec
Czech Republic	+6.0 Q3	+5.8	+4.8	+5.3	+6.7 Nov	+5.4 Dec	+1.7	+5.4	6.0 Dec
Denmark	+1.7 Q3	+6.7	+1.6	+1.8	−2.6 Dec	+2.3 Dec	+1.8	+2.2	2.7 Dec
Hungary	+1.0 Q3	+1.2	+3.0	+3.7	+5.3 Dec	+7.4 Dec	+6.5	+4.5	7.7 Dec††
Norway	+3.1 Q3	+5.6	+2.9	+2.6	−1.9 Dec	+2.8 Dec	+2.2	+2.4	2.5 Nov††
Poland	+6.4 Q3	na	+5.2	+4.4	+6.2 Dec	+4.0 Dec	+1.4	+3.6	11.4 Dec‡‡
Russia	+7.7 Q3	na	+6.7	+5.7	+6.5 Dec	+11.9 Dec	+9.0	+11.5	6.1 Dec‡‡
Sweden	+2.5 Q3	+2.4	+2.6	+2.6	+4.2 Nov	+3.5 Dec	+1.6	+2.8	5.6 Dec‡‡
Switzerland	+2.9 Q3	+1.3	+2.0	+2.0	+10.7 Q3	+2.0 Dec	+0.6	+1.6	2.6 Jan
Turkey	+1.5 Q3	na	+3.8	+5.2	+7.7 Nov	+8.2 Jan	+9.9	+8.1	9.2 Q3‡‡
Australia	+4.3 Q3	+4.1	+3.5	+3.3	+1.6 Q3	+3.0 Q4	+3.3	+3.1	4.3 Dec
Hong Kong	+6.2 Q3	+7.0	+4.8	+5.4	−2.1 Q3	+3.8 Dec	+2.3	+3.9	3.4 Dec††
India	+8.9 Q3	na	+7.7	+7.2	+5.3 Nov	+5.5 Dec	+6.9	+6.1	7.2 2007
Indonesia	+6.5 Q3	na	+6.1	+5.7	+2.0 Nov	+7.4 Jan	+6.3	+6.4	9.8 Feb
Malaysia	+6.7 Q3	na	+5.7	+5.9	+5.7 Dec	+2.4 Dec	+3.1	+2.8	3.1 Q3
Pakistan	+7.0 2007**	na	+5.4	+5.4	+9.8 Oct	+8.8 Dec	+8.9	+7.9	6.2 2006
Singapore	+6.0 Q4	−3.2	+4.9	+4.7	−1.7 Dec	+4.4 Dec	+0.8	+3.0	1.6 Q4
South Korea	+5.5 Q4	+6.3	+4.6	+4.6	+12.4 Dec	+3.9 Jan	+1.7	+2.9	3.1 Dec
Taiwan	+6.9 Q3	na	+4.5	+4.0	+10.7 Dec	−1.1 Jan	+0.4	+2.3	4.0 Dec
Thailand	+4.9 Q3	+6.3	+4.8	+4.1	+11.6 Dec	+4.3 Jan	+3.0	+3.2	1.1 Nov
Argentina	+8.7 Q3	+11.7	+6.2	+4.7	+8.3 Nov	+8.5 Dec	+9.8	+11.4	7.5 Q4‡‡
Brazil	+5.7 Q3	+6.9	+4.5	+4.1	+6.7 Nov	+4.5 Dec	+3.1	+4.5	7.4 Dec‡‡
Chile	+4.1 Q3	−2.5	+4.5	+5.0	+3.4 Dec	+7.5 Jan	+2.8	+5.4	7.2 Dec†††‡
Colombia	+6.6 Q3	+6.9	+5.5	+4.5	+7.4 Nov	+1.1 Jan	+4.7	+5.0	9.4 Nov‡‡
Mexico	+3.7 Q3	+5.9	+2.7	+3.4	+0.8 Nov	+3.8 Dec	+4.1	+4.1	3.4 Dec‡‡
Venezuela	+8.7 Q3	na	+4.9	+3.9	+2.7 Sep	+24.1 Jan	+18.4	+24.0	8.5 Q3‡‡
Egypt	+8.1 Q4	na	+7.3	+6.7	+7.5 2007**	+6.9 Dec	+12.4	+6.6	8.8 Q3‡‡
Israel	+4.8 Q3	+6.1	+4.1	+4.6	+2.5 Nov	+3.4 Dec	−0.1	+2.8	7.3 Q3
Saudi Arabia	+4.3 2006	na	+6.0	+5.6	na	+6.5 Dec	+2.9	+5.0	na
South Africa	+5.1 Q3	+4.7	+4.7	+5.4	+4.4 Nov	+9.0 Dec	+5.8	+6.6	25.5 Mar‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+6.4 Q3	+7.4	+4.3	+4.7	−2.1 Dec	+11.0 Jan	+5.1	+8.2	5.2 Nov
Finland	+4.1 Q3	+3.0	+3.1	+2.8	+2.6 Dec	+2.6 Dec	+2.2	+2.2	6.7 Dec
Iceland	+4.3 Q3	+9.9	+2.3	+2.8	+7.6 2006	+5.9 Jan	+6.9	+4.6	0.8 Dec‡‡
Ireland	+4.1 Q3	+5.6	+2.8	+2.9	+16.3 Nov	+4.7 Dec	+4.9	+3.0	4.9 Jan
Latvia	+10.9 Q3	na	+6.6	+6.5	−5.4 Dec	+14.1 Dec	+6.8	+10.5	5.4 Dec
Lithuania	+7.9 Q4	−4.3	+7.4	+6.5	na	+8.1 Dec	+4.5	+6.4	4.3 Dec‡‡
Luxembourg	+5.6 Q3	+2.8	+4.4	+4.8	−1.3 Oct	+3.4 Dec	+2.3	+2.3	4.4 Dec‡‡
New Zealand	+3.4 Q3	+1.1	+2.1	+2.7	+1.3 Q3	+3.2 Q4	+2.6	+2.6	3.4 Q4
Peru	+8.1 Nov	na	+6.1	+6.7	+11.5 Nov	+4.2 Jan	+0.6	+2.7	8.0 Nov‡‡
Philippines	+7.3 Q4	+7.4	+5.3	+5.4	−2.9 Nov	+4.9 Jan	+3.9	+3.5	6.3 Q4‡‡
Portugal	+1.8 Q3	−0.1	+2.0	+2.2	−0.9 Dec	+2.7 Dec	+2.5	+2.3	7.9 Q3‡‡
Slovakia	+9.4 Q3	na	+7.0	+5.7	+13.2 Nov	+3.4 Dec	+4.2	+2.7	8.0 Dec‡‡
Slovenia	+6.3 Q3	na	+4.8	+4.0	+2.4 Nov	+5.6 Dec	+2.8	+3.6	7.3 Nov‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 4.0% in Dec. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. §§New series.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Feb 7th 2008
From The Economist print edition

The Economist commodity-price index

2000=100

	Jan 29th	Feb 5th*	% change on one month	% change on one year
Dollar index				
All items	232.3	239.1	+5.3	+30.7
Food	231.3	241.6	+8.0	+55.3
Industrials				
All	233.7	235.9	+1.9	+8.0
Nfa†	183.2	186.0	+2.4	+19.9
Metals	261.3	263.2	+1.6	+4.1
Sterling index				
All items	177.3	184.6	+5.7	+31.0
Euro index				
All items	145.5	151.0	+5.8	+15.6
Gold				
$ per oz	926.75	890.45	+1.8	+36.4
West Texas Intermediate				
$ per barrel	91.67	88.29	−8.5	+49.5

*Provisional †Non-food agriculturals.

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The Economist poll of forecasters, February averages

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From The Economist print edition

The Economist poll of forecasters, February averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2008	2009	2008	2009	2008	2009	2008	2009
Australia	3.0/4.5	2.8/4.3	3.5 (3.6)	3.3 (3.4)	3.1 (3.2)	2.7	–5.4	–5.4 (–5.3)
Belgium	1.7/2.5	1.8/2.4	1.9 (2.0)	2.0	2.3 (2.0)	1.9 (1.8)	2.5 (2.3)	2.3 (2.1)
Britain	1.5/2.0	1.7/2.5	1.7 (1.9)	2.1 (2.2)	2.3 (2.1)	2.0	–3.7 (–3.4)	–3.3 (–3.1)
Canada	0.5/2.5	1.5/2.9	1.7 (1.9)	2.4 (2.5)	1.8 (1.9)	2.0	0.3 (0.4)	–0.1 (0.1)
France	1.3/2.3	1.2/2.2	1.7 (1.8)	1.9 (2.0)	2.2 (2.0)	1.8	–1.4 (–1.3)	–1.5
Germany	1.5/2.5	1.4/2.3	1.8 (1.9)	2.0 (2.1)	2.1	1.7	5.7 (5.6)	5.7 (5.6)
Italy	0.8/1.8	1.1/2.1	1.2 (1.3)	1.5	2.4 (2.3)	2.0	–2.4	–2.3
Japan	0.9/1.6	1.2/2.4	1.3 (1.4)	1.8 (1.9)	0.6 (0.3)	0.6 (0.5)	4.8	5.0
Netherlands	1.4/2.7	1.6/2.6	2.0 (2.1)	2.1 (2.2)	2.1 (2.0)	2.1	7.3 (7.6)	7.2 (7.1)
Spain	1.9/3.0	1.7/3.0	2.4	2.4 (2.3)	3.2 (3.1)	2.7	–9.0 (–8.9)	–8.2 (–8.1)
Sweden	2.2/3.3	1.8/3.1	2.6 (2.7)	2.6	2.8 (2.6)	2.2	6.0 (6.4)	6.2 (6.7)
Switzerland	1.5/2.4	1.6/2.3	2.0	2.0	1.6 (1.4)	1.2	14.7	14.9 (14.7)
United States	0.8/2.2	1.8/3.1	1.6 (1.8)	2.5 (2.6)	2.9 (2.8)	2.2	–4.8	–4.4 (–4.5)
Euro area	1.3/2.4	1.3/2.3	1.8	1.9 (2.0)	2.4 (2.3)	2.0 (1.9)	nil (0.2)	0.1 (0.2)

Sources: ABN AMRO, BNP Paribas, Citigroup, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, Morgan Stanley, Scotiabank, UBS

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Trade, exchange rates, budget balances and interest rates

Feb 7th 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2008†	Currency units, per $ Feb 6th	Currency units, per $ year ago	Budget balance % of GDP 2008†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−813.0 Nov	−752.4 Q3	−4.8	–	–	−1.7	2.83	3.61
Japan	+107.0 Nov	+212.9 Nov	+4.8	107	121	−2.4	0.74	1.40
China	+261.5 Dec	+249.9 2006	+10.9	7.18	7.75	0.1	4.50	4.01
Britain	−168.2 Nov	−129.4 Q3	−3.7	0.51	0.51	−3.2	5.55	4.46
Canada	+48.7 Nov	+16.3 Q3	+0.3	1.00	1.18	0.8	3.32	3.84
Euro area	+47.6 Nov	+32.8 Nov	nil	0.68	0.77	−0.9	4.36	3.90
Austria	+1.2 Nov	+11.3 Q3	+3.1	0.68	0.77	−0.7	4.36	3.99
Belgium	+18.4 Nov	+13.3 Sep	+2.5	0.68	0.77	−0.6	4.42	4.14
France	−53.8 Dec	−31.6 Nov	−1.4	0.68	0.77	−2.8	4.36	4.01
Germany	+268.1 Nov	+218.0 Nov	+5.7	0.68	0.77	0.6	4.36	3.90
Greece	−53.7 Oct	−44.8 Nov	−12.9	0.68	0.77	−2.7	4.36	4.27
Italy	−10.7 Nov	−43.1 Nov	−2.4	0.68	0.77	−2.6	4.36	4.28
Netherlands	+56.4 Nov	+57.2 Q3	+7.3	0.68	0.77	0.3	4.36	4.00
Spain	−130.1 Nov	−133.0 Oct	−9.0	0.68	0.77	nil	4.36	4.08
Czech Republic	+4.2 Dec	−4.9 Nov	−3.6	17.5	21.6	−2.6	3.93	4.43
Denmark	+4.2 Nov	+4.0 Nov	+1.3	5.08	5.73	2.8	4.75	4.02
Hungary	−0.4 Nov	−6.8 Q3	−6.2	179	194	−4.4	7.51	7.45
Norway	+59.0 Dec	+59.9 Q3	+15.3	5.50	6.23	17.8	5.76	4.27
Poland	−11.8 Nov	−15.8 Nov	−4.1	2.45	2.97	−2.0	5.65	5.68
Russia	+128.2 Nov	+76.6 Q4	+4.3	24.6	26.5	1.2	10.25	6.29
Sweden	+17.8 Dec	+29.4 Q3	+6.0	6.44	7.00	2.3	3.99	3.93
Switzerland	+11.6 Dec	+69.6 Q3	+14.7	1.10	1.24	0.6	2.67	2.80
Turkey	−62.8 Dec	−35.7 Nov	−7.1	1.18	1.40	−2.9	16.58	5.99‡
Australia	−18.0 Dec	−49.9 Q3	−5.4	1.11	1.28	1.5	7.42	6.08
Hong Kong	−23.5 Dec	+26.9 Q3	+6.4	7.80	7.81	2.6	2.36	2.39
India	−68.9 Dec	−10.9 Q3	−2.0	39.5	44.1	−3.3	7.25	7.75
Indonesia	+39.8 Dec	+10.3 Q3	+1.9	9,242	9,039	−1.8	8.03	6.71‡
Malaysia	+29.9 Nov	+28.7 Q3	+12.0	3.23	3.49	−3.1	3.62	3.24‡
Pakistan	−15.2 Dec	−7.3 Q3	−6.5	62.8	60.8	−5.0	10.11	9.58‡
Singapore	+36.1 Dec	+46.3 Q3	+22.4	1.42	1.53	0.1	1.63	2.21
South Korea	+10.7 Jan	+6.0 Dec	+0.8	942	934	0.2	5.46	5.26
Taiwan	+16.7 Dec	+28.4 Q3	+5.9	32.0	33.0	−2.1	2.60	2.52
Thailand	+12.1 Dec	+14.9 Dec	+2.4	32.9	34.4	−2.1	3.30	3.79
Argentina	+11.2 Dec	+6.8 Q3	+1.7	3.17	3.10	1.2	10.56	na
Brazil	+38.5 Jan	+3.6 Dec	−0.1	1.76	2.08	−2.5	11.18	6.16‡
Chile	+24.5 Dec	+6.7 Q3	+4.0	475	548	5.4	6.36	3.73‡
Colombia	−1.4 Nov	−5.2 Q3	−3.8	1,928	2,237	−1.3	9.21	5.96‡
Mexico	−11.2 Dec	−7.5 Q3	−1.4	10.8	10.9	nil	7.42	7.57
Venezuela	+23.4 Q3	+20.2 Q3	+7.0	5.25	4.23§	−2.6	13.59	6.55‡
Egypt	−18.0 Q3	+1.2 Q3	+0.9	5.53	5.70	−7.0	5.99	4.91‡
Israel	−10.2 Dec	+5.9 Q3	+3.3	3.63	4.24	−1.4	4.37	5.21
Saudi Arabia	+146.6 2006	+98.9 2006	+21.8	3.75	3.75	12.0	3.00	na
South Africa	−10.3 Dec	−19.9 Q3	−7.8	7.67	7.18	0.6	11.20	8.80
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−4.2 Nov	−3.2 Nov	−14.1	10.7	12.0	1.3	7.30	na
Finland	+13.1 Nov	+14.8 Nov	+4.2	0.68	0.77	3.7	4.26	3.98
Iceland	−1.7 Jan	−3.0 Q3	−10.3	66.0	67.9	2.3	13.77	na
Ireland	+37.3 Nov	−11.1 Q3	−3.2	0.68	0.77	−1.1	4.36	4.12
Latvia	−7.2 Nov	−6.5 Oct	−21.5	0.48	0.54	1.0	7.39	na
Lithuania	−6.9 Nov	−5.3 Nov	−14.2	2.36	2.65	−0.6	5.08	na
Luxembourg	−6.0 Nov	+4.7 Q3	na	0.68	0.77	0.9	4.36	na
New Zealand	−3.9 Dec	−10.2 Q3	−7.4	0.78	1.46	3.8	7.30	6.33
Peru	+8.3 Nov	+2.2 Q3	+1.3	0.34	3.19	1.4	4.30	na
Philippines	−5.0 Nov	+5.8 Sep	+5.2	40.7	48.4	−0.4	5.69	na
Portugal	−24.7 Oct	−18.6 Oct	−8.1	0.68	0.77	−2.6	4.36	4.17
Slovakia	−0.9 Nov	−3.5 Sep	−3.1	22.8	26.5	−2.3	4.16	4.26
Slovenia	−2.8 Nov	−1.8 Oct	−2.5	0.68	0.77	−0.7	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Feb 7th 2008
From The Economist print edition

Markets

	Index Feb 6th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	12,200.1	−2.0	−2.1	−2.1
United States (S&P 500)	1,326.5	−2.2	−6.5	−6.5
United States (NAScomp)	2,278.8	−3.0	−5.7	−5.7
Japan (Nikkei 225)	13,099.2	−1.8	−24.0	−15.1
Japan (Topix)	1,298.4	−1.6	−22.8	−13.8
China (SSEA)	4,827.1	+4.1	+71.5	+86.3
China (SSEB, $ terms)	317.7	+3.0	+124.7	+144.2
Britain (FTSE 100)	5,875.4	+0.7	−5.6	−5.4
Canada (S&P TSX)	12,867.2	−1.0	−0.3	+15.7
Euro area (FTSE Euro 100)	1,184.5	−0.9	−7.4	+3.0
Euro area (DJ STOXX 50)	3,760.1	−0.8	−8.7	+1.4
Austria (ATX)	3,876.9	+1.1	−13.1	−3.5
Belgium (Bel 20)	3,698.6	−1.8	−15.7	−6.3
France (CAC 40)	4,816.4	−1.2	−13.1	−3.4
Germany (DAX)*	6,847.5	−0.4	+3.8	+15.4
Greece (Athex Comp)	4,359.4	−2.8	−0.8	+10.3
Italy (S&P/MIB)	33,856.0	−1.2	−18.3	−9.2
Netherlands (AEX)	442.3	−0.2	−10.7	−0.7
Spain (Madrid SE)	1,418.4	−1.0	−8.8	+1.4
Czech Republic (PX)	1,532.5	+0.7	−3.5	+15.3
Denmark (OMXCB)	397.0	+1.0	−6.4	+4.1
Hungary (BUX)	23,164.6	−2.5	−6.8	−0.9
Norway (OSEAX)	471.5	−0.3	−6.1	+6.2
Poland (WIG)	47,929.5	−1.1	−4.9	+12.6
Russia (RTS, $ terms)	1,947.2	−1.7	−5.2	+1.3
Sweden (Aff.Gen)	300.3	+0.2	−17.8	−12.7
Switzerland (SMI)	7,565.5	−1.4	−13.9	−4.1
Turkey (ISE)	43,317.5	−2.2	+10.7	+32.6
Australia (All Ord.)	5,677.6	+0.2	+0.6	+14.1
Hong Kong (Hang Seng)	23,469.5	−0.8	+17.6	+17.2
India (BSE)	18,139.5	+2.1	+31.6	+47.4
Indonesia (JSX)	2,639.1	+1.1	+46.2	+42.2
Malaysia (KLSE)	1,415.9	+2.3	+29.2	+41.0
Pakistan (KSE)	14,018.2	+0.2	+39.6	+35.3
Singapore (STI)	2,932.0	−2.3	+0.5	+8.9
South Korea (KOSPI)	1,696.6	+6.8	+18.3	+16.8
Taiwan (TWI)	7,674.0	+1.7	−1.9	−0.1
Thailand (SET)	794.6	+4.1	+16.9	+28.4
Argentina (MERV)	2,039.5	+0.2	−2.4	−5.6
Brazil (BVSP)	58,968.0	−2.2	+32.6	+61.2
Chile (IGPA)	12,815.3	−1.2	+3.6	+16.2
Colombia (IGBC)	8,875.9	−2.7	−20.5	−7.6
Mexico (IPC)	27,929.3	−1.3	+5.6	+5.7
Venezuela (IBC)	35,467.3	−0.5	−32.1	−56.8
Egypt (Case 30)‡	10,261.7	+0.3	+47.2	+52.0
Israel (TA-100)	1,004.3	−1.2	+9.0	+26.5
Saudi Arabia (Tadawul)	9,484.4	−2.0	+19.6	+19.6
South Africa (JSE AS)	27,881.4	+3.0	+11.9	+2.9
Europe (FTSEurofirst 300)	1,322.0	−0.6	−10.9	−0.9
World, dev'd (MSCI)	1,425.1	−1.7	−3.9	−3.9
Emerging markets (MSCI)	1,104.9	+1.2	+21.1	+21.1
World, all (MSCI)	361.2	−1.4	−1.8	−1.8
World bonds (Citigroup)	754.9	+0.4	+14.7	+14.7
EMBI+ (JPMorgan)	436.1	−0.1	+7.1	+7.1
Hedge funds (HFRX)	1,301.5	+0.3	+2.0	+2.0
Volatility, US (VIX)	29.0	27.6	11.6	(levels)
CDSs, Eur (iTRAXX)†	74.3	nil	+218.6	+254.1
CDSs, N Am (CDX)†	125.6	+10.5	+275.7	+275.7
Carbon trading (EU ETS) €	20.0	−0.6	+9.5	+21.8

*Total return index. †Credit-default swap spreads, basis points.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac. ‡New index.

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The Netherlands

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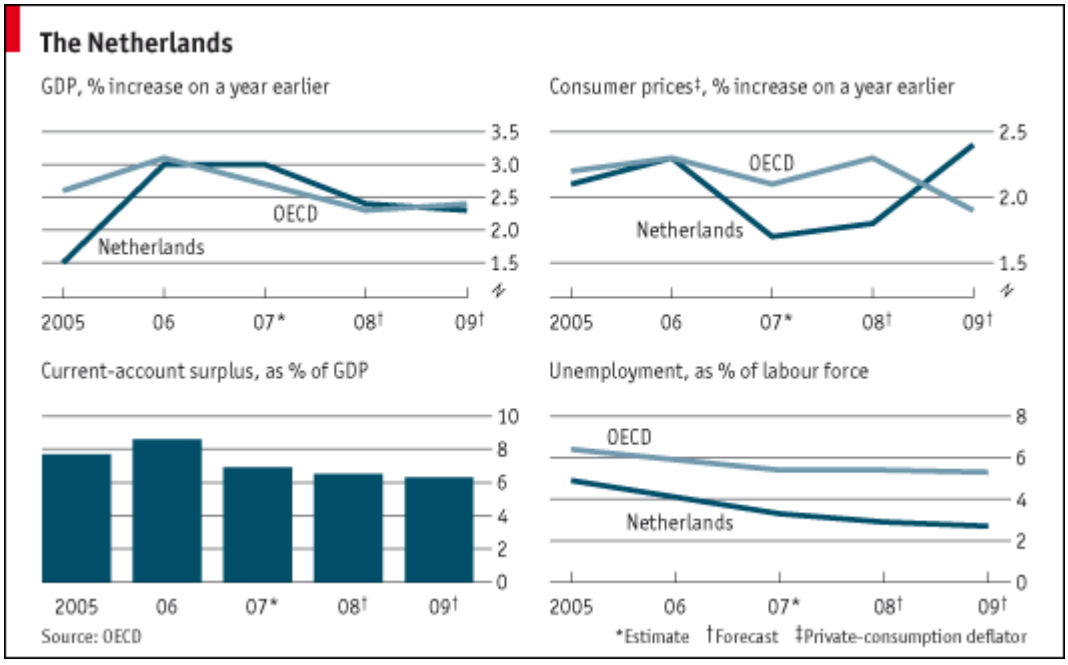

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